U.S. Department of State
FY 2000 Country Commercial Guide: Kenya

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CHAPTER I

EXECUTIVE SUMMARY

This Country Commercial Guide (CCG) presents a comprehensive look at Kenya’s commercial environment, and includes economic, political and market analysis. The CCG's were established by recommendation of the Trade Promotion Coordinating Committee (TPCC), a multi-agency task force, to consolidate various reporting documents prepared for the U.S. business community. Country Commercial Guides are prepared annually at U.S. Embassies through the combined efforts of several U.S. government agencies.

1. OVERVIEW

Kenya, with a gross domestic product (GDP) approaching $10 billion, is the most developed economy in East Africa. However, with an estimated population of 30 million people (almost half of whom are under the age of 15), the country's GDP per capita is less than $300. Kenya enjoys an extensive, if deteriorating, infrastructure, a generally well-educated population and a strong entrepreneurial tradition. Mombasa is the best and most important deep-water port in the region, despite deteriorating equipment and problems with inefficiency and corruption. Kenya's financial and manufacturing industries, while still small, are the most sophisticated in East Africa. Agriculture is the largest employer in Kenya and the country exports tea, coffee, cut flowers and vegetables. Tea exports, Kenya’s largest single foreign exchange earner, netted the country $520 million in 1998. Tourism is the country's second leading foreign exchange earner. Some 672,000 tourists visited the country in 1998. Coffee has been relegated from first to third place because of a slump in production resulting, initially, from low world prices, and currently from mismanagement of local marketing.

Kenya got on the road to economic and political reform in 1992, in response to internal pressure for change as well as initiatives by the World Bank, IMF, and other multilateral and bilateral donors. In that year, Kenya introduced multiparty democracy, which began a still on-going process of political reform and economic liberalization. In the mid-1990's the Government of Kenya undertook economic reforms after a serious drop in economic growth. Reforms included lifting price and foreign exchange controls, reducing tariffs and removing other trade barriers, adopting sound fiscal and monetary policies, and beginning a program of parastatal privatization.

Today, despite Kenya's assets and the government's economic reforms the government has adopted, the economy continues to struggle. After increasing by 2.3 percent in 1997, real GDP growth dropped to 1.8 percent in 1998 and is expected to reach only 1.4 percent in 1999. With population increasing annually by 2.6 percent, Kenya's per capita GDP, already one of the lowest in the world, is falling. Whereas the average annual inflation rate was 11.2 percent in 1997, in 1998 it fell to 6.6 percent and is estimated to have been about 6.4 percent in 1999. Kenya continues to run a current account deficit, which has been offset by donor assistance and private investment.

Two key sectors of Kenya’s economy, agriculture and tourism, struggled in 1998 and 1999 because of bad weather and security problems. Kenya’s main imports are industrial supplies, machinery and capital equipment, transport equipment, and petroleum products.

The country's 1999 imports were valued at $3.20 billion, while exports were valued at $1.99 billion. Kenya’s mineral resources are small.

Kenya’s key economic challenge in the next few years is to increase its real GDP growth rate. High and sustained economic growth is essential if Kenya is to address its high unemployment rate and widespread poverty. Achieving high growth will, however, depend on improved economic governance. In July 1997, governance problems led the IMF to allow its first-year Enhanced Structural Adjustment Facility (ESAF) arrangement for Kenya to lapse. For similar reasons, the World Bank let its Structural Adjustment Credit (SAC) expire on June 30, 1998. On the positive side, the government initiated an Economic Recovery Strategy in September 1999 that contained commendable pronouncements. Key elements of the strategy include improving public sector management, enhancing accountability and integrity, promoting the rule of law, and increasing the participation of the private sector in public affairs. The question is whether the government will be able to implement the reform proposals contained in the strategy.

Kenya has been politically stable since independence in 1963. Relations with the United States have been friendly. In 1992 the country adopted a multiparty system with a vibrant parliamentary opposition. In recent years, the press has enjoyed considerable freedom, but periodic intimidation and harassment of independent papers occurs. Popular pressure for political reforms, which expressed itself in 1997 through periodic street demonstrations and clashes, continues and the GOK is responding positively but cautiously. The government adopted a package of significant political reforms prior to the December 1997 general election, and in early 1999 began a process of constitutional reform.

2. COMMERCIAL ENVIRONMENT

In 1998, U.S. exports to Kenya totaled $199 million, while imports totaled $98.5 million, resulting in a U.S. trade surplus of $100.5 million. This surplus was a decrease of $11 million over 1997. Principal U.S. exports include wheat, aircraft, fertilizer, soybean oil, and aircraft parts. Although Kenya is open and hospitable to trade and investment from the U.S., its traditional ties to formal colonial power the United Kingdom, its almost exclusive use of British business laws and practices, a relatively less-developed market, and its distance from the U.S. are all factors which have served to limit direct U.S. business relationships with the country. Many U.S. firms, though, market in Kenya via their European affiliates, a practice that distorts U.S. market share in Kenya in real terms. Almost 100 American companies are represented in Kenya. The stock of U.S. foreign direct investment in Kenya in 1997 was $190 million, an increase of over 33 percent from the 1996 level.

Kenya's official debt has been rescheduled in the Paris Club. Foreign exchange reserves greatly improved from a few days of imports at the end of 1992 to approximately three months' cover at the end of 1998, and remained at or near that level in 1999. Kenya is repaying its debt, although it is sometimes late in making payments. Importer interest in buying from the U.S. is increasing as the country's economy liberalizes and diversifies.

3. MAJOR BUSINESS OPPORTUNITIES

Investment opportunities exist in the tourism, agriculture, manufacturing and other sectors. Specific areas of interest to U.S. business include ecotourism, power generation equipment, telecommunications equipment, agricultural inputs, and food processing and packaging equipment. Kenya's liberalized economy and the country's constitutional guarantee of investment protection provide incentives to invest, as do tax and investment incentives such as investment allowance, duty remission, and tax exemptions in the country's export processing zones. U.S. firms are encouraged to consider using Kenya as a base to access and penetrate the larger combined east and central African market.

4. EMBASSY ASSISTANCE

The U.S. and Foreign Commercial Service (CS), with a regional operation based in Nairobi, along with the Foreign Agricultural Service (FAS), Economic and Political sections of the Embassy, stand ready to assist U.S. businesses in their efforts to penetrate this relatively dynamic and regional market hub.

CHAPTER II

A. MAJOR TRENDS AND OUTLOOK

1. OVERVIEW

Since the beginning of the 1990s, the government has made significant strides in the implementation of economic reform measures necessary to stabilize the economy and restore sustainable economic growth. By April 1994, the government had removed nearly all administrative controls on producer and retail prices, imports, foreign exchange and grain marketing. The lifting of price controls on petroleum products in October 1994 and permission for foreigners to invest in the Nairobi Stock Exchange in 1995 signaled the end of significant remaining controls. As a consequence of these reforms, the shilling exchange rate has stabilized, overall balance of payments has become favorable, the debt service ratio has declined, and foreign exchange reserves have increased. A high rate of real economic growth, however, remains elusive. With population growing at 2.6 percent annually, the projected rate of growth of 1.4 percent for 1999 is considerably below what is required for Kenya to significantly improve domestic standards of living.

SELECTED ECONOMIC INDICATORS, 1993-1998

Indicator	1994	1995	1996	1997	1998	1999*
Growth in Real GDP, %	3.0	4.8	4.6	2.3	1.8	1.4
Rate of Inflation, % (Average Annual)	28.8	1.6	9.0	11.2	6.6	6.6
Exchange Rate, KShs/US$ (Average)	49.5	51.4	57.1	58.8	60.4	70.3

Sources: Economic Survey,

Central Bank of Kenya.
*estimated

Management of the financial sector, and banks in particular, has generally improved. Weak banks have either been closed or brought under statutory management, while irregular loans have been curbed.

Although the overall trend in economic reforms begun in 1992 has been positive, some problems have continued to arise. The agricultural sector has been set back by problems in the tea and coffee sub-sectors. Delays in civil service reform and downsizing have put strains on the government budget as projected revenues have failed to materialize. In July 1997, the IMF suspended its Enhanced Structural Adjustment Facility (ESAF) support to the country worth $180 million, citing poor economic governance by the Kenyan government. Since then, the GOK has been working to meet certain conditions set out by the IMF for resuming ESAF discussions. After successful conclusion of Article IV consultations in November 1999, the IMF Board agreed to open negotiations with Kenya on a Poverty Reduction and Growth Facility (PRGF).

Prospects for regional cooperation continue to improve. There has been renewed interest among the leaders of Kenya, Uganda, and Tanzania in strengthening the three-year-old East African Cooperation, with its secretariat in Arusha, Tanzania. In November 1999, leaders of the three countries signed the EAC treaty, which provides for the formation of an economic community and removal of trade barriers by November 2003. Rwanda and Burundi have expressed their interest in joining the community.

2. ECONOMIC REFORMS

After years of slow progress on economic reform, in 1993 the government embarked on substantive economic reform measures to achieve reasonable economic growth. In a relatively short period, the government instituted several measures to open the economy to market forces. By the end of the first quarter of 1994, the government had dismantled most foreign exchange controls, allowed a free-floating exchange rate, removed import licensing and liberalized domestic marketing of all major items including grain. At the same time, the government decontrolled prices of all major items except petroleum products, which were later decontrolled in October 1994. The measures helped spur faster economic growth, which peaked at 4.8 percent in 1995 before sliding to 4.6 percent in 1996. The economic downturn continued through 1997. During that year, the economy grew by 2.3 percent, a decline attributable to political and ethnic violence, poor weather and infrastructure problems. The IMF's decision to allow the ESAF to lapse contributed to investor uncertainty. These problems continued into 1998 and 1999 and helped to slow real GDP growth in those years to 1.8 percent and 1.4 percent, respectively.

Kenya is committed to an economic reform program whereby the private sector will become the engine of the country's future economic growth. This commitment is stressed in the government's blueprint for industrial transformation of the economy released February 1997 and in its Policy Framework Paper with the IMF and World Bank from early 1996. Despite its public commitment to reform, the government has been slow in implementing change. Privatization continues to move forward, but the government is years behind its own schedule. The government has also been slow in introducing public sector reform, including downsizing the civil service, and measures to address widespread corruption. The government also needs to take steps to improve the legal system, strengthen the police force and promote the rule of law.

3. MONETARY POLICY

The Central Bank of Kenya (CBK) was accorded greater control over monetary policy through legislation passed in 1996. Under the law, CBK has the twin principal objectives of maintaining price stability and administering the financial sector. In this regard, the bank continued to enforce monetary discipline begun in 1993 when inflation reached an unprecedented peak of 46 percent.

Tight monetary policy in the past five years resulted in high interest rates that reflected persistently high nominal discount rates on Treasury Bills. Interest on 91-day Treasury Bills increased from 21.5 percent in December 1996 to 26.4 percent in December 1997 before peaking in April 1998 at 27 percent. With inflation reduced to single digits in mid-1998 the Central Bank eased monetary supply by, among other measures, reducing the cash ratio requirement for financial institutions. Interest rates declined gradually from May 1998 through December 1998 when the rate on 91-day Treasury Bills was 12.5 percent. In late February 1999, the rate dropped to eight percent. However, the rate gradually increased to almost 20 percent as 1999 closed.

The Central Bank relies on the cash ratio as an instrument of regulating money supply. No cash ratio is required for mortgage finance companies. The required commercial bank cash ratio was decreased from 20 to 18 percent in the third quarter of 1994. The minimum cash ratio was reduced further to 15 percent in October 1997 and to 13 percent in September 1998 in a bid to bring down high interest rates and stimulate investment. The liquidity ratio required of banks and non-bank financial institutions (NBFIs) was harmonized in July 1995. Since July 1997 the minimum liquidity ratio for all financial institutions has been 20 percent of deposit liabilities.

In regulating the financial sector, the Central Bank closed five locally-owned banks in the first half of 1995 when they failed to meet an increased paid-up capital requirements of seven percent introduced in December 1994. In the first quarter of 1995 the GOK imposed a foreign exchange exposure limit of 20 percent of a bank's capital. There were several cases of insolvency of banks in 1998 with five banks being placed under statutory management. A run on deposits at the fourth largest bank was stemmed by government intervention. By the end of 1998 the number of financial institutions under liquidation by the Deposit Protection Fund Board was 17.

In January 1997 the CBK lifted the embargo on establishment of new banks imposed in 1994. However, stringent new requirements regarding management qualifications and minimum capital requirements were introduced. In May 1997, the CBK rated 13 banks

(26 percent of the total) as weak in their operations for the year 1996. Eighteen percent of the banks were considered excellent. Non-bank financial institutions (NBFIs) are required to gradually convert to banks. As of November 1999, the number of NBFIs was only 11, a substantial reduction from 32 that had existed in 1996. Some of the former NBFIs converted to banks while others merged with their parent commercial banks.

Kenya's budding Nairobi Stock Exchange has received government support. In January 1995, foreign participation of up to 40 percent was permitted through the Foreign Investors Board (FIB) window. The turnover of FIB as a proportion of total stock market turnover was 36 percent in 1997 and 35 percent in 1998. Over the same period, net foreign investment inflow through the exchange decreased from $26.8 million to $1.3 million. Activity at the stock exchange has been diversified through introduction of trading in new instruments, namely corporate bonds, commercial paper, and a floating rate one-year bond that was issued by the Central Bank in March 1997. Capital Market Authority, the regulatory body, in May 1997 issued regulations governing issuance of corporate bonds and commercial paper.

4. FINANCE

Kenya's financial sector is well diversified. By November 1999, there were 48 licensed and operational commercial banks, 11 non-bank financial institutions, four building societies, two mortgage finance companies and 48 foreign exchange bureaus. Other institutions include ten development finance companies, five representative offices of foreign banks, a capital markets authority, one securities exchange based in Nairobi, several pensions funds including the large state-owned National Social Security Fund (NSSF), a post office savings bank, 37 insurance companies, three re-insurance companies, one claim settling agent, 15 insurance surveyors, four risk managers, about 2,700 insurance agents, and over 3,000 poorly structured cooperative savings and credit unions. By the end of 1996, there were also 20 securities and equities brokerage firms, 15 investment advisers, and 57 hire purchase companies.

The banking sector is dominated by two multinational banks (Barclays and Standard Chartered) and two parastatal banks (Kenya Commercial and National). U.S.-owned Equator Bank has a subsidiary (Kenya Equity Management) and Citibank has a branch. Other U.S. banks have correspondence relationships with Kenyan banks.

The Capital Markets Authority regulates the stock market and the brokerage firms. The Nairobi Stock Exchange (NSE) handles 62 listed firms with a virtually nonexistent secondary capital market. The low listing is largely due to government requirements for detailed information many firms consider confidential. Requirements for financial discipline, availability of subsidized credit in the money market, disclosure and reporting requirements are some of the other factors militating against public quotation. The stock market, including stock-brokerage, was on January 1, 1995 opened up for direct foreign participation. The limit on foreign share ownership is 40 percent. Activity at the exchange has been boosted through floatation of government shares in diversified companies, by some KSH. 6.5 billion ($118 million) since 1992.

The Nairobi Stock Exchange trading floor is currently open but only with clearance of actual stock certificates. Plans are in place to introduce electronic trading, however. Merchant and investment banking is still underdeveloped despite the presence of such multinational banks as Barclays, Stanbic, Citibank, Equator Bank, and Standard Chartered. A local firm has established operations dealing with commercial paper and the secondary and tertiary market, but it is still in its infancy.

In the past, restrictive legislation and the government's interventionist approach in the insurance sector forestalled more flexibility in the insurance companies' investment strategy. However, the government has taken a more rational approach of late, which has broadened insurance companies' investment options.

5. TRADE POLICY REFORM

Kenya's trade policy has been liberalized in recent years. Import licensing controls were dismantled in 1993, except for a small negative list based on health, environmental and security concerns. Imports are still, however, subject to some approvals. All imports with f.o.b. value of more than $5,000 are subject to pre-shipment inspection (PSI) for quality, quantity, and price and require a Clean Report of Findings by a government-appointed inspection agency (either Cotecna Inspections, Inc., Bureau Veritas-Bivac or SGS; for contact information, see Appendix E, Section 3). Commercial banks are required to ensure that importers have submitted Import Declaration Forms, invoices, and a Clean Report of Findings as well as a copy of the Customs entry before releasing foreign exchange to importers. Import declaration fee, which includes a PSI fee, is 2.75 percent of the export (f.o.b.) value. Effective June 1998, if importers fail to obtain inspection in advance, a penalty of 15 percent (25 percent for motor vehicles) is applied for local inspection.

Trade barriers on certain products are maintained by high import duties and value added tax. Kenya progressively reduced its number of customs duty bands (including the zero rate) from 8 to 4 between June1994 and June 1997. The maximum tariff rate fell from 45 percent in June 1994 to 25 percent in June 1997. However, the government adopted a more protectionist tariff regime in 1999 by increasing import and suspended duties on a wide range of products. Import duties were increased from 15 percent to 25 percent on a selected range of agricultural, livestock and horticultural products. Duty on textiles was increased from 25 to 30 percent. Kenya's import regulations on agricultural products are constantly changing, depending on politics, domestic supply, and demand. To address food security concerns, the government periodically prohibits exports of wheat and corn. Kenya has frequently applied prohibitively high tariffs or outright import bans on certain agricultural imports. A dairy import ban was lifted in mid-l997. However, as of December 1997, an ad valorem duty of 70 percent was levied on rice, sugar, and milk. The tariff on wheat was the higher of the following: (a) 75 percent ad valorem or (b) 50 percent ad valorem plus 3.75 Kenyan shillings per kg (approximately $56 a metric ton). In June 1998 a 5 percent suspended duty was imposed on imported fruits, vegetables and their products and on such non-agricultural items as paper and paper products, clothing, aluminum tubes, lamps and electric cables.

The standard value added tax (VAT) rate was reduced from 17 percent to 16 percent in June 1998. Discriminatory application of these taxes has in the past distorted trading, especially in sugar, maize, and milk powder. Procurement decisions can be dictated by donor-tied aid, or influenced by corruption. Customs and immigration rules are detailed and rigidly implemented. These restrictions have seriously inhibited Manufacturing Under Bond schemes. A strict constructionist attitude among customs officials often leads to delays in clearing both imports and exports.

6. FOREIGN EXCHANGE REFORM

In October 1993 the market and the official exchange rates were unified and floated on the open market when the rate was KSH 69 to the U.S. dollar. The shilling strengthened thereafter to an average U.S. dollar rate of 56 in 1994 and 51 in 1995, before declining to an average of 57 in 1996, 59 in 1997 and 60 in 1998. At the beginning of 2000, the shilling was exchanging at a rate of 72 to the U.S. dollar.

In February 1994, the government announced more liberal foreign exchange measures that eventually replaced the highly restrictive foreign exchange control legislation. All exporters are allowed to retain all foreign exchange proceeds in foreign currency accounts at commercial banks in Kenya. The retained proceeds may be used to finance business-related current expenses and debt service payments or sold to banks at the market-determined exchange rate. Banks are permitted to sell the foreign exchange they purchase in the retention market for their own accounts, and to offer forward-exchange contracts to exporters and importers at market-determined rates. No limits apply to the amount or period of cover. Beginning the last quarter of 1994, foreign exchange bureaus were licensed by the CBK primarily to serve the retail end of the foreign exchange market in competition with banks. There were 48 licensed foreign exchange bureaus by the end of 1999.

There are no official schemes for currency swaps or exchange rate guarantees for external debt servicing, except for the Exchange Risk Assumption Fund, which covers the foreign exchange losses associated with exchange fluctuations occurring after July 1, 1989 for three development finance institutions.

Kenyans and other residents can operate foreign currency accounts and borrow from the off-shore market. Restrictions on remittance of foreign investment income have been removed. Non-residents on a work permit in Kenya may operate foreign currency accounts and remit after-tax employment earnings without government approval.

7. CURRENT ECONOMIC SITUATION AND TRENDS

In 1996, the Kenyan economy was characterized by scarcity of foodstuffs and power shortages affecting industrial production. This rekindled inflationary pressures and forced the government to divert financial resources toward importation of famine-relief food. The high cost of domestic credit also had a negative impact on the economy. As a result, real GDP growth declined from 4.8 percent in 1995 to 4.6 percent in 1996. That began a three-year economic slump that has been aggravated by deteriorating infrastructure, high interest rates, politically instigated violence, lack of investor confidence and poor economic governance. The combined effect of these factors was a decrease in GDP growth rate to 2.3 percent in 1997, 1.8 percent in 1998, and an estimated 1.4 in 1999. The economic numbers for 1999 were dismal, fueled by crop failure in the 1998/99 short rains season and the rationing of electric power supply that began in September. While the rate of interest on 91-day Treasury Bills dropped dramatically, from 27 percent in May 1998 to around 8 percent in February 1999, lending rates by commercial banks remained high. Worse, as the end of 1999 approached, interest on 91-day Treasury Bills had increased to over 19 percent. As a result of government borrowing, interest rates are too high to stimulate borrowing for investment.

Tourism, once a growth industry in terms of visitors, foreign exchange earnings and job creation, has been on the decline. Total hotel occupancy in Kenya, a good indicator of the magnitude of tourism, has been on a general decline since 1994. This decline began to accelerate in August 1997 when politically motivated violence at the coast led to the closure of several hotels. Overall bed occupancy dropped by 16 percent in 1997. The slump in coastal tourism continued through 1998 with the hotel occupancy rate reported at a low 25 percent. However, there were signs of a turnaround in 1999 with occupancy rates increasing with some hotels reporting rates as high as 50 percent.

The economy is being increasingly hurt by the poor state of roads, unreliable power and water supplies, high interest rates charged by commercial banks on loans (averaging above 20 percent), and rampant corruption. High interest rates and inadequate funds for public buildings and construction projects hamper building and construction activities.

A number of measures have been adopted or proposed to improve the economic environment. An Electricity Regulation Board was appointed in 1998 to manage the opening up of the power sector to independent producers. An autonomous Kenya Roads Board has been proposed to develop and maintain all the roads in the country with extensive private sector participation. The Communications Commission of Kenya (CCK) was established to regulate a competitive telecommunications and broadcasting sector and became operational in 1999. A new advisory board to the Kenya Anti-Corruption Authority was named in January 1999 and President Moi appointed a director in March 1999, though by the end of the year the authority had yet to demonstrate that it was effectively tackling corruption.

B. PRINCIPAL GROWTH SECTORS

1. OVERVIEW

Kenya's main growth sectors include agriculture, tourism, power generation, and manufacturing. Agriculture is the mainstay of the Kenyan economy, providing livelihood to approximately 75 percent of the population. The agricultural sector currently contributes an estimated 25 percent of the GDP, and generates 60 percent of the total foreign exchange. The sector has strong linkages with the manufacturing sector offering opportunities in technology infrastructure such as packaging, storage, and transport while creating demand for such inputs as fertilizer, herbicides and fungicides.

In recent years, tourism competed with tea exports as Kenya's single largest foreign exchange earner. In 1996 the country was host to 800,500 tourists, who brought in about $448 million. In 1997 the number of tourists and earnings from tourism declined to 744,300 and $408 million, respectively. Tourism slumped further in 1998, with 672,000 earning the country $290 million. The sector offers investment opportunities in accommodation, recreation, and entertainment facilities, including hotels, health spas, holiday centers and ecotourism.

Horticulture -- producing flowers and fresh fruits and vegetables for the European market -- is the fourth largest earner of foreign exchange and the fastest growing sector in the Kenyan economy. The earlier appreciation of the Kenyan shilling against all major foreign currencies had adversely affected this sector as well as tourism. With the weakening of the shilling, it is expected this sector will continue to expand rapidly.

The manufacturing sector is one of the expanding sectors of the economy. The Government of Kenya pursues a policy of export promotion and has given priority to the manufacturing sector. Major opportunities exist for direct and joint venture investments in various sectors such as agro-processing, telecommunications, automotive components assembly, electronics, plastics, paper and paper products, chemicals, pharmaceuticals, and metal and engineering products. As a result of past import substitution policies, the manufacturing base in Kenya and neighboring countries is competitive rather than complementary.

The country has a reasonably well-established power generation network consisting of hydro, thermal, and geothermal plants. Demand for electricity energy is growing at an estimated 4.9 percent while generation is projected to grow at an annual rate of 10.3 percent for the next four years. The government is keen on developing both thermal and geothermal power sources to supplement hydropower generation. However, due to allegations of mismanagement and corruption, multilateral and bilateral donors in 1991 suspended funding for power generation projects. This created a gap in the funding pipeline for power generation and a consequent wide gap between existing and planned generating capacity and current and future demand. Brownouts and blackouts may become more frequent over the next several years until capacity catches up with demand. The World Bank in June 1997 approved a $125 million credit towards the development of Kenya's power sector. Sales opportunities currently exist in geothermal power equipment for an additional three plants that have been earmarked for immediate development.

2. TOURISM

Tourism is Kenya's second largest foreign exchange earner after all agricultural exports -- coffee, tea, horticulture, etc. Tourism levels stagnated in 1993-94, due in large part to the appreciation of the shilling and the consequent increased cost of goods and services plus security concerns. Nevertheless, the country received an estimated 785,700 tourists in 1995 earning about $486 million which was below the 1994 earnings of $501 million from 807,600 tourists. Europeans account for over 50 percent of Kenya's tourists, Americans for less than 10 percent. The 1996 tourism earnings of $448 were 65 percent of the combined revenues from coffee and tea exports. Bed occupancy rates increased from 43.7 percent in 1995 to 44.6 percent in 1996 and to 51.6 percent in 1997. However, declining total availability of accommodation contributed to the higher occupancy rates. For example, total available bed-nights decreased by 16 percent in 1997.
The coastal beaches, wildlife, and unique scenery are Kenya's main attractions. Unfortunately, crime, disintegrating infrastructure, and growing competition from neighboring countries threaten a rapid expansion of this potentially lucrative industry. On the other hand, political pressures stemming from competing land uses between humans and animals make conservation a high profile issue. Fiscal incentives in the tourism industry and liberalization of the foreign exchange regime are likely to reduce costs in the industry and make Kenya an attractive destination.

3. ENERGY/POWER GENERATION

In 1998 the country had an installed capacity of hydro (600MW), thermal oil (219 MW) and geothermal electricity (45 MW). The total power supply was 4,545 GWH, including 146 GWH imported from Uganda. The sole national power distributor started rationing electricity in September 1999 due to lower generating capacity resulting from insufficient rainfall and a breakdown of one thermal generating facility. In the year 2000, the country now requires 949 megawatts to meet national demand. Renewable energy sources are largely undeveloped. The country depends on imported solar panels. Animatics, which sells panels from ARCO Solar Company, is one of several major solar companies operating in the country. Biomass, though cheaper to use and in plentiful supply in rural Kenya, remains untapped.

After more than 30 years of exploration, no commercially viable petroleum deposits have been discovered in Kenya. GOK parastatals are involved in petroleum operations including refining and bulk transportation; pricing modalities are liberalized. At the marketing level, seven private international and local oil companies are involved. The seven oil companies together with the government-owned National Oil Corporation are licensed to purchase crude oil and to market petroleum products. In late 1994, the government decontrolled petroleum prices but imposed a road maintenance tax on gasoline and diesel. The new tax replaces all toll stations except those at the international borders.

The 31-year-old Kenya Petroleum Refineries, Ltd., (KPR) refines crude oil into LPG, gasoline, jet fuel, kerosene, diesel, gas oil and fuel oil. The refinery has a total throughput of 2.08 million metric tons (95,000 barrels per stream day) and is operating at about 65 percent of plant capacity.

Due to the lack of any facilities to import and store LPG, a product essential for cooking and lighting, the refinery runs a crude mix to maximize LPG production. The government owns 50 percent of the share capital of the refinery, while the balance is spread evenly among Shell International (U.K.) Inc., Caltex and Mobil. The government provides management with assistance from Shell in an advisory role. The government recognizes the need to upgrade the technology in the aging refinery if it is to compete effectively with other refined product suppliers. KPR has an uphill task to reduce the lead content in gasoline. In the past, the refinery has been able to do this using the installed plant and equipment. Further improvements would require substantial rehabilitation work and the substitution of expensive non-lead additives to produce unleaded gasoline. Petroleum products (white oils) are transported inland mainly by pipeline. The 14-inch Mombasa-Nairobi-Eldoret pipeline and the extension to Kisumu belongs to the government-owned Kenya Pipeline Company (KPC). Kenya plans in principle to extend the pipeline from Eldoret to Uganda.

Kenya spends over 24 percent of its foreign exchange earnings on imports of crude oil and petroleum products. Preliminary figures for 1998 show that the country imported fuels and lubricants valued at $532 million, an equivalent of over 17.5 percent of the total imports. Total energy demand in Kenya is growing at about 3.7 percent a year; the country is therefore looking for alternative sources. Geothermal power has been identified as a good possibility for the future.

4. MANUFACTURING

Kenya's manufacturing sector policy was initially focused on import substitution. This policy, however, has recently been replaced by export-oriented manufacturing. Specific opportunities are available in the following activities:

Paper Products: Kenya imports about 20,000 tons of coated white lined chipboard and other boards for packaging, and 5,000 tons of newsprint, waste paper, printed paper, and other types for local consumption. Investment opportunities exist in paper production using forest products, bagasse, sisal waste, straw, and waste paper.

Metal and Engineering: Kenya has built up a substantial basic metal sector making a variety of downstream products from local and imported steel scrap, steel billets, and hot rolled coils. The country possesses a broad-based metal products sector and imports approximately 277,000 tons of various metals annually. There are various opportunities in the development of a nucleus foundry.

Vehicle Parts and Assembly: The country's active motor vehicle population is approximately 401,000. Following import liberalization and reduction of duty on completely knocked-down vehicles (CKDs), new entrants each year have more than doubled from about 12,400 in 1993 to 28,664 in 1996. Manufacture of components for use in local assembly and for export to regional markets is expanding.

Electrical Equipment: Manufacture of electrical equipment in Kenya is limited. Investment potential exists for the production of fractional horsepower motors, circuit breakers, transformers and switchgears, capacitors, resistors, and integrated circuit boards.

Electronics: Key opportunities for direct investment, joint ventures and subcontracting exist in the assembly of a wide range of electronic goods in Kenya. These include the production of: consumer electronics, such as color televisions, VCRs, printers, floppy disk drives, printed circuit boards, computer power supplies, transmission equipment, and industry support items, including cables, cords, and metal plating.

Plastics, Chemicals and Pharmaceuticals: There are many investment opportunities in chemicals, pharmaceuticals and fertilizers. These include production of PVC granules from ethyl alcohol; formaldehyde from methanol; melanin from urea; cuprous for coffee bean disease; caustic soda and chlorine-based products; and active carbon.

5. OTHER SECTORS

Agriculture: Kenya is basically an agricultural country. In order to feed itself, further development in the sector is essential. Only eight percent of its landmass is arable. In order to maintain per capita food production levels, more modern agricultural methods and inputs are required, as well as expanded large and small scale irrigation schemes. Therefore, growth in the agricultural sector is important in the near, medium, and long-terms.

Telecommunications: A modern telecommunications system will be important if Kenya is to continue to play a regional role and as a gateway to East and Central Africa. Liberalization of the sector began in 1999 with establishment of an independent regulator, the breakup of the monopoly service provider and the selection of a second mobile cellular service provider. It is expected that telecommunications will become a significant growth sector in the future.

Computers and peripherals: These will become more important as Kenya's economy grows. The reduction in June 1995 of duties and VAT on computers and the need for Kenyan companies to become more competitive in the computer age should help increase this sector's development. Growth in this sector is expected.

Health Care: Requirements in this sector will steadily increase with a growing economy and population. With the high level of HIV/AIDS in certain segments of the sexually active population, the development of full-blown AIDS and associated medical care will only expand. However, even though the need may greatly expand, the ability to pay may not.

Other Infrastructure Development: There will be a need to overhaul the highway system and modernize airports. This development will depend upon availability of World Bank, African Development Bank, and other multilateral and bilateral funding.

C. GOVERNMENT ROLE IN THE ECONOMY

Privatization and parastatal reforms started in earnest in 1993. By September 1998, the GOK had divested its interests in 165 enterprises out of a 1992 list of 207 parastatals designated for privatization. However, most of these firms are small and the government has moved very slowly on privatizing the large, "strategic" parastatals. The Kenya Railways Corporation has allowed private contractors to provide maintenance services. Kenya Airways was privatized in 1996. Since then, there have been some opportunities in the area of "add ons" such as FAX and telex services. The GOK has introduced reforms to ensure more transparency in parastatal privatization and to strengthen an otherwise inefficient Parastatal Reform Executive Secretariat. The GOK has stated it intends to periodically review the parastatal reform process in order to make it more transparent and responsive to local needs. This trend is expected to continue creating opportunities for U.S. firms.

As the GOK continues with the privatization process, it will have to make hard decisions concerning the Railways Corporation, Ports Authority, Kenya Power and Lighting Company, and other parastatals that continue to be a drain on the budget. Commercialization or privatization of these state-owned infrastructure entities will not be easy.

Since the 1992 multiparty elections, the Government of Kenya has consistently strived to maintain policy measures that will consolidate and reinforce fiscal and monetary discipline for economic growth. Some of these measures include control of government expenditure, budget deficit reduction, and programmed restructuring of the economy in favor of private enterprise. One significant measure in terms of enhanced GOK revenue collection was the establishment of the Kenya Revenue Authority to consolidate the collection of taxes and other fees. The authority became operational in July 1995.

D. BALANCE OF PAYMENTS

Between 1997 and 1998, Kenya's overall balance of payments position improved from a $13 million deficit to a $74 million surplus. Although the Central Bank estimates that Kenya maintained its surplus position in 1999, the surplus fell by nearly 65 percent to $26 million. The driving force behind the overall balance in recent years has been the capital account. Between 1997 and 1998, despite a nearly 20 percent increase in the current account deficit (from $387 million to $463 million), the capital account surplus improved by nearly 44 percent (from $374 million to $537 million), thanks to increased net private inflows. However, in 1999, with a decline in investor confidence, these flows appear to have reversed, resulting in a 32 percent decline in the capital account surplus (from $537 million to $364 million). The reduction in the surplus on the capital account overwhelmed the nearly 27 percent improvement on the current account deficit (which shrank from $463 million to an estimated $339 million).

Between 1998 and 1999, Kenya's import bill declined by 4.2 percent (from $3,337 million to $3,198 million), while its earnings for exports of goods and services declined by only 0.5 percent (from $2,875 million to $2,860 million). Although export volumes of tea and coffee remained relatively unchanged, earnings were down as a result of a decline in the prices for these commodities.

SELECTED EXTERNAL SECTOR INDICATORS, US$ Millions (unless indicated)

Indicator	1996	1997	1998	1999 (E)
Overall Balance of Payments	398	-13	74	26
Current Account Balance	-93	-387	-463	-339
Capital Account Balance	491	374	537	364
Foreign Exchange Reserves (official)	860	788	783	746
Months of Import Cover (Number)	3.6	2.9	3.0	2.8
Debt Service as % of Exports of Goods and Services	24.6	21.5	20.6	N/A

Source: Central Bank of Kenya E = estimated, N/A = not available

Official foreign exchange reserves at the end of 1998 were $783 million, the equivalent of three months of import cover, which were little changed from a year earlier. Commercial banks and the public held $317 million in foreign exchange in addition to the official reserves. The Central Bank estimates that at the end of 1999, official reserves stood at $746 million, or about 2.8 months of import cover, while the commercial banks and public held $361 million in foreign exchange.

The debt service ratio (stock of public sector debt as a proportion of exports of goods and services) declined from 1996 to 1998. As of December 1996, the ratio was 24.6 percent before declining to 21.5 percent in 1997 and to 21.4 percent by December 1998. The external debt at the end of 1998 was US$5.3 billion, of which 55% was owed to multilateral lenders, 39 percent to bilateral lenders and 6 percent to commercial banks and in the form of export credits. Although the Central Bank has not yet released figures for 1999, analysts expect that the debt service ratio may have risen.

E. INFRASTRUCTURE SITUATION

1. OVERVIEW

The GOK recognizes the critical role of an efficient infrastructure in economic development. Recent economic development policy documents emphasize the vital role of efficiency in the management of transport, utilities, and bank/financial services in achieving a rapid and sustained economic growth and accelerating development of industry. At one time, Kenya had one of the best infrastructures in Africa. For a variety of reasons, this infrastructure has deteriorated and failed to keep up with increasing demands. With assistance from the World Bank, the European Union, African Development Bank (ADB), and other multilateral and bilateral donors, the Government is implementing reforms aimed at increasing the efficiency of existing facilities through improved maintenance, rehabilitation, upgrading, and expansion.

2. TRANSPORT

a) Airports: Kenya has a reasonably well-developed international and domestic air transport infrastructure. The country has three international airports: Nairobi's Jomo Kenyatta International Airport (JKIA), Mombasa's Moi International Airport and Eldoret International Airport which became operational in April 1997. Other airports are Wilson in Nairobi, Malindi and Kisumu. There are also more than 300 airstrips throughout the country. JKIA serves more than 30 airlines providing scheduled services to international cities. In addition to passenger handling services, it has air cargo handling facilities, including chilling facilities for storage of cut flowers bound for Europe. Wilson Airport in Nairobi handles light aircraft and general aviation, and is the busiest in Africa.

b) Seaports: The Port of Mombasa, with a rated annual capacity of 22 million tons, is Kenya's main seaport and serves most East and Central African countries. It is a deep-water port with 21 berths, two bulk oil jetties and dry bulk wharves that can handle all size ships. The port offers specialized facilities, including cold storage, warehousing, and container terminal. It serves most international shipping lines and has an average annual freight throughput of about 8.1 million tons, of which 72 percent are imports. Kenya Ports Authority (KPA) manages the port operations. There are plans to replace or refurbish some of the equipment at the port. A private international firm has been contracted to manage and operate the container terminal in Mombasa. Inland container depots, managed by KPA, exist in Nairobi, Eldoret, and Kisumu.

c) Road Network: Kenya has an extensive road network of approximately 95,000 miles connecting most parts of the country. Road transport network accounts for over 80 percent of Kenya's total passenger and freight transport. Paved roads connect all major commercial centers. The current state of the roads is deplorable, as necessary periodic and routine maintenance has long been lacking. Causes of poor roads in Kenya include inadequate funding from the GOK, reflected in a sharp drop in the share of road maintenance expenditure to total expenditure on roads. In 1994, the GOK legislated a road maintenance levy to raise additional funds. In collaboration with donors, the GOK recently launched an ambitious project -- Roads 2000 -- that involves linking up all the major and minor roads countrywide to one another. The project is expected to be completed in another 2-3 years, at a total cost of $245 million. Twenty thousand kilometers of roads in six urban centers will also be rehabilitated under the project. All bidders for the various components of the project were international companies, except four -- one fully locally-owned and the other three having Kenyan interests.

d) Railways: Kenya Railways Corporation (KR), a parastatal, manages Kenya's single-track railway system, which runs from Mombasa through Nairobi to the Ugandan border, with a branch to central Kenya. The corporation, like most Kenyan parastatals, has heavy operational losses with consequent deterioration of services. South African Railways has provided on a lease-hire basis ten 1,200-ton haulage capacity locomotives for cargo shunting between Nairobi and Mombasa. World Bank's IDA and the British Overseas Development Administration are funding a railways rehabilitation program to make KR commercially viable. IDA has agreed to provide a $60 million facility for the railway restructuring. The GOK has designated KR as a strategic parastatal so, to date, has allowed only the corporation's maintenance services to be privatized. In the June 1997 budget, however, the Finance Minister stated that the GOK would open up the railways to private sector participation through privatization and by limiting the state parastatal's role to owning and regulating lines while leasing locomotives to private sector operators.

e) Pipeline: Kenya Pipeline Company, another strategic parastatal, operates a UK-funded white petroleum products pipeline. Currently the pipeline runs between the Port of Mombasa, where the petroleum refinery is located, and Kisumu and Eldoret in western Kenya through Nairobi. Kenya roads are used to haul cargo to and from neighboring land-locked countries and parts of Tanzania. However, recently, as a measure to reduce road congestion and increase revenue to the Kenya Pipeline, the GOK has tried to institute a policy whereby white petroleum products for export are taken off the pipeline at Eldoret instead of being trucked from Mombasa. The GOK also has plans to extend the pipeline to Uganda.

3. UTILITIES

a) Telecommunications: The Communications Commission of Kenya (CCK) was established in 1999 to regulate telecommunications and radio communications in the country. The commission also regulates postal services. In July 1999, Kenya Posts and Telecommunications Corporation was split into Telkom Kenya, a telecommunication corporation, and Postal Corporation of Kenya, a postal services corporation. Kencell, a joint venture between Vivendi of France and Sameer of Kenya, won the second cellular license bid in late 1999 to provide GSM services in competition with Safaricom, the Telkom subsidiary. The government plans to sell up to 49 percent of Telkom Kenya to a strategic partner before an initial public offer is made on the Nairobi Stock Exchange. With the right competitive environment, the potential for private sector investments in telecommunications is enormous.

b) Electricity: Kenya's electricity services are provided by Kenya Power and Lighting Company (KPLC), another "strategic" GOK parastatal. The company has similar management and operational problems as other parastatals with resultant deterioration of services. KPLC will in the future concentrate on power supply and distribution, leaving generation functions to another parastatal company that was invigorated at the beginning of 1997, the Kenya Power Company (now Kenya Electricity Generating Company). Power outages and brownouts have become increasingly common due to occasional drought and constant breakdowns of aging equipment, which is poorly maintained. Equipment replacement funds are still being sought. Hydro, geothermal and thermal steam provide the country with 864 megawatts (MW) of electric energy. An additional 30 MW are imported from Uganda each year. Two separate international companies were licensed at the beginning of 1997 to produce another 43 MW of power from a thermal plant in Mombasa and 45.5 MW from a diesel plant in Nairobi. Unfortunately, the Mombasa plant was out of commission beginning in April 1999 because of a breakdown in its turbines. It was back in operation by the end of 1999. Power is supplied at 240 volts, 50 Hz single phase, and 450 volts, 50 Hz three phase. The standard electrical plug is the British three-blade plug.

c) Water and Sewage: In Kenya's major towns, local authorities provide sewage and drainage systems for residential and commercial use. Water is supplied by local authorities and other licensed suppliers. Increased demand for water in Kenya's main urban areas has led to multimillion-dollar water projects in Nairobi and Mombasa. Water shortages have become a permanent feature although water quality has been maintained at acceptable international standards. However, visitors are still advised to filter and boil, distill drinking water, or purchase bottled water.

4. BANK/FINANCIAL SERVICES

Kenya has a well-developed financial sector with 56 licensed national and internationally affiliated banks. Five of the licensed banks are under statutory management while two are not operational. These banks offer a range of services including: mail and cable fund transfer, export and import finance, letters of credit, and purchase and sale of shares and stocks among other services. Most of the banks are competent in international banking practices and provide merchant banking services. Their services, although often lacking up-to-date information technology, are within acceptable levels. Financial consultancy and management in the country are still in infancy, but the pioneers have versatile and international backgrounds. It is anticipated that major banks will continue to modernize their data processing equipment and use faster data transfer means, including satellite links to outlying branches.

5. HEALTH SERVICES

The country has a widespread health service network. Services are concentrated mainly in urban areas; they are sparsely available in rural areas. Sophisticated medical treatment is only available in Kenya's two main cities of Nairobi and Mombasa where most of the qualified medical practitioners are resident. Although the country has a contingent of internationally trained medical personnel, they are few in number and lack modern equipment backup and highly trained support medical staff. Nairobi Hospital and Aga Khan Hospital in Nairobi provide some of the most modern medical services in the country, but are overstretched. For additional details, see Chapter IX - "Business Infrastructure."

6. HOUSING/OFFICE SPACE

Quality, reasonably-priced residential and office accommodation is readily available in Nairobi and Mombasa. New housing developments are cropping up, mostly with adequate utilities. Utility connections, telephone and FAX lines can usually be obtained, though delays are common.

CHAPTER III

POLITICAL ENVIRONMENT

A. OVERVIEW OF KENYAN POLITICS AND GOVERNMENT

Kenya has had an elected civilian government since independence in 1963. It became a *de facto* one-party state not long after attaining self-rule and was a *de jure* one-party state between 1982 and 1991. On December 2, 1991, multiparty politics were reintroduced.

President Daniel T. arap Moi was reelected in 1997. President Moi's Kenya African National Union (KANU) won a plurality of total votes in the 1997 presidential and parliamentary elections, and currently holds a majority of 119 of 222 seats in the unicameral National Assembly. While observers considered the 1997 elections imperfect, they concluded that the vote broadly reflected the popular will.

The 1997 elections came amid significant popular demand for constitutional and other reform. In response to this pressure, members of the National Assembly established an Inter-Parties Parliamentary Group (IPPG), which formulated a number of reforms to expand Kenya's democratic space. Parliament passed the proposals into law in late 1997. The Constitution of Kenya Review Commission Act, passed in 1997 and extensively revised in 1998, set out a complex schedule for national consultations and the drafting of a new constitution. The political parties, however, have not been able to agree on how to implement the Act. Civil society, religious groups, and various non-governmental organizations continue to press for constitutional reform, but are not always in agreement on how to proceed. As a result, the constitutional review process is now stalled.

The debate on constitutional reform is complicated by fast-approaching presidential and parliamentary elections. President Moi has stated publicly that he intends to step down after general elections in 2002, as required by the current constitution. On other occasions, however, the president has left the door open to staying in office, and some ruling party officials have urged the president to do so. Both the constitutional review process and the question of presidential succession remain subjects of intense political speculation, and the situation is likely to remain fluid through 2002.

B. POLITICAL RELATIONSHIP WITH UNITED STATES

The United States has maintained cordial relations with the Government of Kenya since just before independence, and the United States has given Kenya substantial amounts of development and military assistance. Good bilateral relations reflect, in part, the relative stability that Kenya has achieved since independence, while most of its neighbors have been involved in serious domestic or international conflict. Kenya and the United States have cooperated most recently in providing emergency assistance to Somalia, southern Sudan, and Rwanda. The U.S. maintains a military access agreement with the Government of Kenya.

C. MAJOR POLITICAL ISSUES AFFECTING THE BUSINESS CLIMATE

Internal politics influences the Kenyan business climate. High level corruption is pervasive. Politically motivated appointments to ministries, parastatals, and financial institutions, including the Central Bank of Kenya, often render these institutions less effective. Tenders are often awarded on the basis of political connections. The government began in mid-1999 a process of reform meant to improve governance. This included the appointment to key senior civil service positions of reformers dedicated to good governance. Although these appointments were welcome moves, it is too early to tell what the outcome of these changes will be.

The United States, in cooperation with the Government of Kenya, has implemented a special assistance program to help resolve these problems of governance by promoting government accountability; a responsible, effective parliament; and strong, independent institutions within civil society. In 1998, the Government of Kenya established the Kenya Anti-Corruption Authority, with broad powers to investigate and prosecute officials suspected of corruption. The KACA, however, has yet to demonstrate its effectiveness.

There is a significant ethnic dimension to Kenyan politics. Among Kenya's 42 ethnic groups, the long-dominant Kikuyu are now largely aligned with one or two opposition parties. The Luo, another large ethnic group, are likewise aligned with an opposition party, whose leaders, however, have struck an alliance with President Moi. Smaller ethnic groups, perhaps fearing domination by larger groups, have for the most part sided with President Moi and the ruling KANU party.

Ethnic differences sometimes unite with land pressures and other factors to produce significant violence. Between September 1991 and September 1994, over 1,000 Kenyans died in "ethnic-land" clashes. Many more were injured or maimed, and tens of thousands were displaced, mainly from the Rift Valley. There have been further, if smaller scale, outbreaks of ethnic violence in the Rift Valley and Coast provinces each year since 1997. Ethnic factors play a role in periodic instability along Kenya's borders with Uganda, Sudan, Ethiopia and Somalia, where cattle rustling and tribal conflict frequently lead to loss of life.

Often neglected in this context is the small, but crucial, business community of South Asian origin that dominates Kenyan business and is linked internationally to other South Asian businesses. This group tends to stay out of politics and to operate behind the scenes. Although resentment against this group has never resulted in major anti-Asian outbreaks, appeals to incitement against this community took place in September 1994. The community was also targeted during the 1982 coup attempt.

D. BRIEF SYNOPSIS OF POLITICAL SYSTEM, SCHEDULE FOR ELECTIONS AND ORIENTATION OF MAJOR POLITICAL PARTIES

BASIC POLITICAL SYSTEM

PRESIDENT:	His Excellency Daniel T. arap Moi
VICE PRESIDENT:	The Honorable George Saitoti
CABINET:	Fifteen cabinet ministries

GOVERNMENT

Centralized, largely modeled on British pattern. Central government administrative control exercised through a system of commissioners appointed by the President for the eight provinces and 69 Districts. Kenya is a member of the Commonwealth.

LEGISLATURE

Unicameral. Consists of 222 voting members, including 12 nominated according to political party representation in the National Assembly. Attorney General and Assembly Speaker are ex-officio, non-voting members. Procedures generally follow British pattern. Legislative term is five years.

PARTIES

There are ten political parties represented in parliament: the ruling Kenya African National Union (KANU), the Democratic Party of Kenya (DP), the National Development Party (NDP), the Forum for Restoration of Democracy-Kenya (FORD-K), the Social Democratic Party (SDP), Safina, the Forum for Restoration of Democracy to the People (FORD-P), the Forum for the Restoration of Democracy-Asili (FORD-A), Shirikisho and the Kenya Social Congress (KSC). President Moi, re-elected to a five-year term in 1997, belongs to KANU. KANU also holds a majority of seats (119) in the assembly. DP, the next-largest party, has 38 seats.

The Islamic Party of Kenya (IPK) has never been registered due to Kenya’s ban on political parties with an ethnic or religious base. A score of other parties exist but have no representation in parliament.

ELECTORAL SYSTEM

Universal suffrage exists for all citizens over 18. Voting is by secret ballot. The Electoral Commission of Kenya, which is appointed by the government, supervises elections. Kenya's next general election must occur by law by late 2002.

CHAPTER IV

MARKETING U.S. PRODUCTS AND SERVICES

A. OVERVIEW

Kenya continues to offer excellent prospects for U.S. goods and services despite the economic slowdown. The country is the economic/commercial hub for the region with reasonably good communications network. The market is increasingly becoming sophisticated with a large expatriate community supplementing an equally large number of Kenyans who have been exposed to the Western lifestyle. U.S. exporters are advised to look into marketing here. This market normally serves the entire Eastern and Central African region and is generally considered the regional hub. Standard international marketing and distribution methods are widely used in Kenya. The country has well established marketing channels with a sizeable and experienced group of wholesalers and resalers with experience in representing international manufacturers and service providers. Local advertising agencies and affiliates of international advertising agencies and market research companies complement the marketing channels. A vibrant, competent, and expanding media provide advertising opportunities for manufacturers and international exporters.

B. DISTRIBUTION AND SALES CHANNELS

The Kenyan market is increasingly becoming competitive and demanding. The government has opened up the market to more entrants. Product representation is crucial for effective market coverage. This representation may be achieved through one or a combination of the following methods:

--Establishing a local representative/distributor.
--Selling through an agent or distributor who can cover the entire region, including the neighboring countries of East Africa.
--Selling through established dealers.
--Establishing a dealership (especially common for big-ticket items).

Although the Kenyan market presents no particular marketing problems for U.S. suppliers, its long distance from U.S. manufacturers requires that the local dealer or distributor be positioned to stock higher than normal levels to cater for longer freight time. Price and compatible technical specifications usually are the major considerations when deciding to purchase goods. Other than setting up a manufacturing plant, U.S. manufacturers and exporters are best served by establishing a local representative as the most realistic market penetration strategy for Kenya and the region.

Effective after sales service coupled with a well-established provision for spare parts are major considerations by Kenyan businesspeople who buy from international sources. Kenya, unlike the American and European markets, lacks an effective system of back-up service and after-sales support. For one to be competitive in this market, therefore, an effective servicing, after-sales system backed by provision for spare parts is recommended. Kenyan dealers and retailers generally do a smaller volume of business than their American counterparts. U.S. exporters should, therefore, be prepared to sell in smaller lots.

Common methods of selling are through retail outlets, agents or distributors, established wholesalers or dealers, or to end-users which include government agencies and other private local organizations.

The distribution system, especially at the retail level, consists of outlets that are small by American standards. Wholesalers often also act as retailers. They purchase goods from manufacturers and then distribute them either directly, and/or through retail outlets to end-users.

C. USE OF AGENTS/DISTRIBUTORS; FINDING A PARTNER

Kenyan laws have no requirement for the retention of a local agent or distributor by a U.S. or foreign company exporting to Kenya. However, it is advisable that a U.S. company trying to penetrate this market consider retaining a person or persons residing in Kenya. If the product to be exported requires servicing, then qualified service personnel and a reasonable supply of spare parts must be considered. Failure to address the issue of after-sales support and service is an impediment to success in this market. To locate a local agent, distributor, or partner, U.S. business representatives should contact the U.S. Department of Commerce Export Assistance Center nearest to them and request an Agent/Distributor Service (ADS) or an International Company Profile (ICP). ADS is a service intended to assist U.S. exporters find interested and competent foreign representatives and agents. An ICP is a composite trade profile of a foreign firm and contains such company details as commercial background, information on the reliability of the firm, credit standing, summary evaluation of the firm, and a recommendation as to the suitability of the firm as a trade contact. A nominal fee is usually charged for the ADS and ICP services. The Commercial Service at the U.S. Embassy in Nairobi also provides counseling services for visiting U.S. business representatives.

D. FRANCHISING

Although franchising is one the fastest growing trading modes around, historically it has never been a main commercial feature in Kenyan trading practices. It is therefore the least understood and practiced of the channels of distribution. Other than Coca-Cola, franchising in general has not been successful in Kenya, although recently South African franchises have entered the Kenya market. The main impediments include frequent infringement of the franchise agreement, lack of commitment by the franchisees and incompetent management. The distance between the U.S. and Kenya has made franchisee supervision and training difficult. Local businesspeople lack knowledge about, and exposure to, franchising. To successfully enter the Kenyan market, U.S. franchisers will need to reassess franchising terms with a view to accommodating local conditions. Despite these shortcomings, local inquiries for such franchises as McDonald's, Burger King, Pizza Hut, etc., clearly indicate strong interest in franchising.

E. DIRECT MARKETING

Direct marketing of U.S. products in Kenya is limited to big-ticket items. This includes major tender (bid) items, and/or single sale items. For these items, the Commercial Service in Nairobi originates "Trade Opportunities (TOPs)” which include "Foreign Government Tenders (FGTs)” and “private TOPs” which are then distributed through the electronic Economic Bulletin Board (EBB) and National Trade Data Bank (NTDB) of the Office of Business Analysis, Department of Commerce. U.S. businesses can subscribe to these sources through their nearest U.S. Department of Commerce Export Assistance Center.

F. JOINT VENTURES/LICENSING

Unlike franchising, joint ventures and licensing are common features of the Kenyan business scene. While the U.S. Commercial Service office in Nairobi recommends joint ventures or licensing as a practical arrangement for entering the Kenyan market because it combines local marketing expertise and U.S. manufacturing competence, we caution that such arrangements should only be finalized through a local attorney. As previously indicated, infringement on intellectual property rights is a problem in Kenya. The local attorney should include a clause in the agreement stipulating infringement penalties based on Kenyan commercial law and enforceable by Kenyan courts. Joint ventures and licensing arrangements are generally recognized and protected by Kenyan commercial law.

G. STEPS TO ESTABLISHING AN OFFICE

To establish a legal presence in Kenya, U.S. firms should register with the Kenyan Registrar of Companies as a foreign company rather than register a business name or incorporate in Kenya. Incorporation of a company in Kenya as a subsidiary of a U.S. corporation, as opposed to the registration of a U.S. firm, is more complicated and usually more expensive. The registration entails delivering, within 30 days of establishing a place of business in Kenya, to the Registrar of Companies, at the Companies Registry, Attorney General Chambers in Nairobi the following:

(1) A copy of the charter, statutes or Memorandum and Articles of Association or other instrument constituting or defining the constitution of the company certified accurate by a Notary Public;

(2) A list of the company directors and the secretary containing details of their full names, physical and/or postal address, nationalities, business occupation and directorships (if any) of Kenyan companies;

(3) A statement of all mortgages or charges (if any) created by the company over any property situated wholly or partly in Kenya;

(4) The names and postal addresses of one or more people resident in Kenya authorized to accept service of legal proceedings or notices on behalf of the company;

(5) The full physical and postal address of the company's Head Office or registered office; and

(6) The physical and postal address of the company's place of business in Kenya.

The Registrar of Companies issues a "Certificate of Compliance" that the requirements of the Kenyan Companies Act have been fulfilled. This allows the company to obtain trading licenses from the local authority and the Ministry of Trade.

The Commercial Service recommends U.S. firms obtain the services of a local attorney to undertake the registration. Well-established Kenyan legal firms will provide the services for a nominal fee of $500.00 plus a Government of Kenya Stamp Duty of 1% of share capital value. Interested U.S. firms should contact the Commercial Service in Nairobi for a list of attorneys, or see the list in Appendix E (12).

Kenya has, in the main cities of Nairobi and Mombasa, well-established realtors specializing in all areas of real estate management. The U.S. Commercial Service in Nairobi can assist in identifying realtors well positioned to provide office accommodation services.

H. SELLING FACTORS/TECHNIQUES

Catalogs and product brochures are useful tools for selling in Kenya. They serve as convenient reference points for both resellers and end users. The Kenyan market is still unsophisticated and requires visual representation for most products, particularly technically detailed products. Technical details are important in product brochures since Kenyan technical personnel are poorly trained and, for complex equipment, the brochures serve as reference for maintenance details. They supply both end-users and importers with up-to-date product information, including prices and the latest technological developments. U.S. firms should, where practical, use Kiswahili as a second language on the flyers, with English being the first language.

Import licenses are no longer a requirement in Kenya. In an effort to further encourage investment, the government has harmonized and lowered import tariffs: from July 1, 1997, duty rates have been reduced to between 25 percent and zero. The Government of Kenya, however, requires exporters to obtain certificates of inspection for quality and price comparison for goods with a minimum value of $5,000 from either Cotecna Inspections, S.A., Societe Generale de Surveillance S.A. or Bureau Veritas-Bivac (See Appendix E, Section 3 for contact information). Goods with a value of less than $5,000 will be subject to a random inspection by a government import auditor. Under new Kenyan regulations, the inspection agency also establishes the customs classifications of the goods to be imported. It is important for American exporters to ensure that their shipments are classified at the lowest legal tariff rate.

I. ADVERTISING AND TRADE PROMOTION

The most widely used advertising media in Kenya are press, radio, and television. The development and use of other media are limited and not cost-effective. Kenya has four main daily newspapers: *The Daily Nation, East African Standard, Business Africa, and Kenya Times*; six weekly newspapers: *The People, Sunday Times, Sunday Nation, Sunday Standard*, and *The East African*; a weekly magazine: *Weekly Review*; a bi-monthly: *Business Chronicle*; four monthlies: *Finance, Presence, The Executive,* and *African Law*

Review; and a professional journal: *East African Computer News*; all with national distribution. The government-owned Kenya Broadcasting Corporation (KBC) operates both radio and television on a commercial basis. Government radio airtime is 5:00 p.m. to midnight, while government television airtime is limited to about 12 hours daily. KBC, in a joint venture with South African Multichoice, operates a 24-hour commercial television cable station targeted for Nairobi's up-market viewers. Kenya Television Network (KTN), run by the Standard Ltd., runs a 24-hour channel with considerable CNN programming. Cable Television Network (CTN), a pay-per-view television network, runs a cable station aimed mainly at the up-market Nairobi-based Asian clientele. Stella Vision, a Nairobi-based private television network, in June 1996 started commercially broadcasting with an initial reception limited to a 20-mile radius. The Standard Ltd., owners of the East African Standard newspaper, and KBC operate FM radio stations with reception limited to Nairobi, Mombasa and Kisumu. The Citizen and The Nation both operate television and radio stations. Although it claims to have a liberal approach towards issuing of broadcasting licenses, the GOK continues to be reluctant to license private radio and television companies.

Some of the leading international advertising agencies, including Ogilvy & Mather and Young & Rubicam, have local offices or affiliates. Although there are no restrictions on importing ready-to-use advertising materials, U.S. firms should consult closely with locally-based advertising firms to obtain leads on accepted advertising norms and help adapt the material to fit local situations, including translation services as necessary.

The U.S. Commercial Service in Nairobi will be pleased to assist individual firms in conducting solo exhibitions or technical seminars on a reimbursable basis. The CS Nairobi office can assist in arranging for hotel facilities for such exhibitions and seminars upon prior notice. The U.S. Commercial Service also periodically sponsors industry-wide, as well as industry-focused, trade shows in Nairobi. Interested parties should contact the Commercial Service in Nairobi as follows:

Senior Commercial Officer
U.S. Embassy Nairobi
Unit 64100, Box 51
APO AE 09831-4100
(U.S. postage)
Fax: + (254)-(2)-537-846
Tel: + (254)-(2)-537-800 (x3660)

The Nairobi International Trade Fair, an annual six-day, all products exhibition organized by the Agricultural Society of Kenya, is an appropriate venue for exhibition and promotion of such products as agricultural machinery, equipment and inputs; construction equipment; food processing and packaging equipment; and road construction equipment. There also are some specialized trade exhibitions organized annually in Nairobi covering computers, horticulture, medical and telecommunications equipment. U.S. firms marketing regionally should examine the possibility of participating in solo U.S. regional trade fairs and in U.S. pavilions organized in other countries in East and Central Africa.

J. PRODUCT PRICING

Although many U.S. firms prefer to quote prices f.o.b. U.S. port, price quotations for Kenyan-destined goods should be on c.i.f. Mombasa or Nairobi basis, i.e. costs, insurance, and freight to the point of disembarkation; Mombasa for sea freight and Nairobi for air freight. The c.i.f. quote in U.S. dollars is generally acceptable and preferred by Kenyan importers as they are familiar with customs charges, including taxes, that are levied at the local ports/airports, and brokerage and handling charges.

K. SALES SERVICE/CUSTOMER SUPPORT

Down time is always expensive. U.S. firms exporting big ticket and other durable items to Kenya should, therefore, show a willingness and ability to provide trained headquarters service personnel to train local staff, and to establish strong liaison with end-users for continuous equipment performance assessment. Manufacturers, in conjunction with the local representative, should provide detailed product information, including operating instructions. This is important because most of the operating personnel in Kenya are under-trained and the end-users' support staff are prone to mishandle equipment if they do not receive initial instructions and are not provided with comprehensive manuals. U.S.-based manufacturers are disadvantaged in terms of freight time as compared to European competitors. Therefore, ready local availability of spare parts and strong integrated back-up service is vital.

L. SELLING TO THE GOVERNMENT

All major government and parastatal procurements are done through a tendering (bidding) system. The Commercial Service in Nairobi notifies potential U.S. suppliers of the GOK's and/or parastatal's intended procurement by preparing a "Foreign Government Tender" (FGT). The FGT is distributed by the Office of Business Analysis of Department of Commerce through an Economic Bulletin Board (EBB). It is also included in the monthly National Trade Data Bank (NTDB) database. Both EBB and NTDB are available at Department of Commerce Export Assistance Centers located in major U.S. cities. U.S. firms responding to large World Bank/Multilateral donor projects should be competitive and follow tender instructions, especially with regard to financing. Some government tenders are invited only from prequalified firms. The U.S. Commercial Service is working closely with relevant GOK ministries on acceptable procedures of determining how interested U.S. firms may prequalify. Interested U.S. firms should contact the U.S. Commercial Service in Nairobi for further information.

M. PROTECTING YOUR PRODUCT FROM IPR INFRINGEMENT

Kenya is a member of the Paris Union International Convention for the Protection of Industrial Property (Patents and Trademarks). The country also has among its statutes legislation enacted in 1990 for protection of patents and trademarks. The 1990 legislation created the Kenya Industrial Property Office (KIPO) for receipt of IP international applications, issuance of industrial property rights, screening technology transfer agreements and licenses, and dissemination of patent information. KIPO also has the legal authority to prosecute infringements on Industrial Property Rights and registration & renewal of Trade Marks and Service Marks. Trademarks are protected for a period of seven years from the date of application.

Kenyan protection of copyrights is neither extensive nor efficient. The Copyright Act of 1989 has provisions for protection from audio copyright infringement, but not for video. Kenya has law firms with IPR-specialized attorneys who can advise U.S. firms on Kenyan IPR legislation. The U.S. Commercial Service in Nairobi will gladly assist U.S. firms wishing to contact such law firms.

N. NEED FOR A LOCAL ATTORNEY

The Kenyan legal system is based on English law. Although not substantially unlike the U.S. legal system, Kenyan legal practices and procedures are special enough to require services of either a Kenya-based attorney or an attorney licensed to practice within the British Commonwealth. U.S. firms should seek services of such attorneys whenever legal services are required. Contravention of the Kenyan legal practices and procedures, including using the services of a non-Commonwealth attorney could result in serious repercussions such as deregistration of the company, loss of IPR protection, and nullification of any and all legal agreements, contracts, charges, etc. U.S. firms are advised to seek clarification of all legal terminologies as legal terms in Kenyan English may mean something different in American English. See Appendix E Section 12 for a list of attorneys familiar with commercial law, regulations, and practices.

O. PERFORMING DUE DILIGENCE/CHECKING BONA FIDES

The Commercial Service Nairobi office, on request by U.S. firms, does research to verify the existence or reputation of locally based companies. The research is in the form of an International Company Profile (ICP) which provides background information on the local company based on information gathered from local banks, suppliers, customers and any other organization that has had commercial interaction with the local firm which the office has been requested to verify.

CHAPTER V

LEADING SECTORS FOR U.S. EXPORTS AND INVESTMENT

A. BEST PROSPECTS FOR NON-AGRICULTURAL GOODS AND SERVICES

RANKING	PRODUCT	Est. Total Market	Est. Imports from U.S.

		(In $ Million)	(In $ Million)
1.	Telecommunications Equipment	103.8	15.9
2.	Electrical Power Systems	55.3	8.5
3.	Industrial Chemicals	84.7	43.5
4.	Food Processing & Packaging Eq.	28.7	2.7
5.	Automobile Parts & Service Equipment	115.7	1.8
6.	Plastic Materials & Resins	98.5	3.0
7.	Agricultural Machinery & Equipment	26.5	3.1
8.	Laboratory Scientific Instruments	29.5	2.8
9.	Computers & Peripherals	25.2	6.1
10.	Aircraft and Parts	60.6	35.1

1. Telecommunications Equipment (TEL)

The Kenyan telecommunications market is estimated at about $103.8 million. In July 1999, the telecommunications sector was liberalized when the Kenya Posts & Telecommunications Corporation was split into three autonomous entities. Total Kenyan telecommunications market growth for the period 2000-2002 is expected to range from four to seven percent annually in real terms. However, demand for certain items such as telephone receivers and cellular telephones will grow at a faster rate. Although there exists some assembly of telephone sets and PABXs, there is no significant local production of telecommunications equipment. While U.S. technology is respected in this market, American firms have a continuing problem in matching the financing terms (concessionary and mixed credits) offered by its competitors. The telecommunications sector is one of the keys to sustained economic development in Kenya. Opportunities should continue to develop in strategic alliances or joint ventures, especially in the areas of cellular telephone and value add-ons to the traditional telephone system. With the continued liberalization of the telecommunications sector, Kenya could possibly play more of a regional role, as well.

	1997	1998 ($ Millions)	1999
Total Market Size	95.5	103.8	113.1
Total Local Production	NIL	NIL	NIL
Total Exports	N/A	N/A	N/A
Total Imports	95.5	103.8	113.1
Imports From the U.S.	15.0	15.8	16.7
Exchange Rate: U.S. $1 = KSH.	58.8	60.4	70.3

MOST PROMISING SUB-SECTORS: Market Size Est. 1998
($ Millions)

Line Telephone & Telegraph Apparatus	41.7
Navigational Equipment & Parts	2.6

2. Electrical Power Systems (ELP)

Kenya's only two power companies have recently embarked on major power generation and distribution projects. These projects are intended to revamp the country's available electrical power, of which current demand exceeds supply by up to 30 percent. GOK has liberalized the electrical power sector by splitting the Kenya Power & Lighting Company, while at the same time allowing independent power producers to invest in electrical power generation and supplement Kenya Electricity Generating Company, the new power generating entity. The World Bank and its affiliates have pledged to support Kenya's electrical power generation to the tune of $699 million. The country's annual expenditure for transmission lines and sub-station investment will, therefore, trend upwards over time. Total Kenyan ELP market growth for the period 2000-2002 is expected to range from five to seven percent annually in real terms, though demand for such items as transmission lines and switchgear may grow at a faster rate. Demand for replacement equipment for existing facilities also will be a considerable factor. Areas of particular interest to foreign suppliers include the continuing Rural Electrification Program and the World Bank-sponsored geothermal and thermal power generation projects. There is no local production of any of the items covered in this category.

	1997	1998 ($ Millions)	1999
Total Market Size	52.6	55.0	60.2
Total Local Production	NIL	NIL	NIL
Total Exports	NIL	NIL	NIL
Total Imports	52.6	55.0	60.2
Imports from U.S.	8.1	8.5	9.9
Exchange Rate: U.S. $1 = KSH.	58.8	60.4	70.3

MOST PROMISING SUB-SECTORS:	Market Size Est. 1998 ($Million)
Generation equipment	15.0
Switchgear Motors/Engines	9.7
Transmission/Distribution Equipment	7.7

3. Industrial Chemicals (ICH)

Kenya imports all its industrial chemicals, as there is no local production. The market is currently dominated by European suppliers and, to a lesser extent, Asian exporters. An improved Kenyan economy coupled with an expanding regional market dictate an upward trend for industrial chemicals. The 2000-2002 sectoral growth is estimated in the

7-10 percent range. New investment in manufacturing is encouraged by the Government of Kenya. Thus, this sector has growth potential, as new industrial materials are required. U.S. industrial chemical manufacturers/suppliers should actively consider utilizing Kenya as a base for penetrating the entire Eastern and Central African market.

	1997	1998 ($ Million)	1999
Total Market Size	88.9	100.5	111.5
Total Local Production	NIL	NIL	NIL
Total Exports	NIL	NIL	NIL
Total Imports	88.9	100.5	111.5
Imports From U.S.	41.9	43.5	46.7
Exchange Rate: U.S. $1 = KSH.	58.8	60.4	70.3

MOST PROMISING SUB-SECTORS:	Market Size Est. 1997 ($ Million)
Hydrocarbons	13.7
Carboxylic Acids & derivatives	9.1
Synthetic Organic dyes	9.5

4. Food Processing & Packaging Equipment (FPP)

Demand for food processing and packaging equipment in Kenya is expanding in reaction to government-initiated economic reforms. However, domestic production of food processing machinery is still at primarily limited to small commercial ovens used in the baking industry and prefabrication of containers. Due to lack of requisite know-how and material, no significant expansion is expected in local production in the near future. For all practical purposes, all machinery in this sector is imported. The Kenyan sugar industry has initiated expansion plans to the existing sugar factories that require significant amount of imports. Long term, the industry will have a major new investment in the Busia Sugar Factory. Regionally, greater emphasis is being placed on food security in the Greater Horn of Africa, thus placing an increasing demand for food processing, storage and distribution. The GOK, responding to the attendant need of food security, is increasingly reducing tariffs on FPP. This sector is therefore projected to experience solid growth in the future. The sectoral market growth is estimated in the 10 percent range for the period 2000 to 2002.

	1997	1998 ($ Millions)	1999
Total Market Size	28.5	31.6	32.7
Total Local Production	N/A	N/A	N/A
Total Exports	N/A	N/A	N/A
Total Imports	28.5	31.6	32.7

Imports from U.S.	2.6	2.8	3.2
Exchange Rate: U.S. $1 = KSH.	58.8	60.4	70.3

MOST PROMISING SUB-SECTORS:	Market Size Est. 1998 ($ Million)
Vegetable Oil Milling Machinery	15.3
Sugar Processing Equipment	2.2

5. Automotive Parts & Service Equipment (APS)

Although it has an active motor vehicle assembly sector, Kenya has no manufacturing base for automotive parts and service equipment, which are imported mainly from Europe and East Asia. Japan and Europe dominate the auto and truck market in the country. Recently, however, we have witnessed entry of some of U.S. vehicles, led by Chrysler's Jeep Cherokee. Kenyan statistics mix completely knocked-down (CKD) kits with auto parts and service equipment. Thus, the breakdown of the total market and import figures are estimates. By local standards this is a large market with great potential for expansion considering that neighboring countries of Uganda, Tanzania, southern Sudan, Ethiopia, Rwanda and Burundi are also supplied through this market. With the deplorable state of roads, an unhindered influx of used cars in recent years, plus lack of local manufacturing, a growing demand for spare parts and vehicle maintenance in the range of eight to ten percent annually continues. Opportunities exist in this sector, but success will require aggressive marketing.

	1997	1998 ($ Million)	1999
Total Market Size	123.8	137.4	141.4
Total Local Production	N/A	N/A	N/A
Total Exports	N/A	N/A	N/A
Total Imports	123.8	137.4	141.4
Imports from U.S.	1.3	2.0	2.9
Exchange Rate: U.S. $1 = KSH.	58.8	60.4	70.3

MOST PROMISING SUB-SECTOR:	Market Size Est. 1997 ($ Million)
Auto Engine Parts (Aftermarket)	20.6
Auto Body Parts	3.2

6. Plastic Materials & Resins (PMR)

Kenyan consumer demand for plastic products continues to grow at a faster rate than economic and production growth. This has been spurred by economic reforms that have led to sustained economic development and subsequent improvement of available disposable income. The country has no resources to cater for local production of the requisite plastic materials and resins, so imports dominate the market. Thus, a continued increase in future exports is expected in this sector. Competition is from third country suppliers. The market growth for the period 2000-2002 is projected to be in the range of 10-12 percent annually.

	1997	1998 ($ Millions)	1999
Total Market Size	107.2	121.2	126.7
Total Local Production	N/A	N/A	N/A
Total Exports	N/A	N/A	N/A
Total Imports	107.2	121.2	126.7
Imports from U.S.	2.7	3.4	5.2
Exchange Rate: U.S. $1 = KSH.	58.8	60.4	70.3

MOST PROMISING SUB-SECTORS:	Market Size Est. 1997 ($ Million)
Resins	14.7
Unsupported Film Sheets	7.7

7. Agricultural Machinery & Equipment (AGM)

Fabrication of replacement parts is the main local production in Kenya's agricultural machinery & equipment sector; imports dominate the market. The country does not have an established manufacturing base as it lacks know-how and requisite material. The Kenyan market for imported agricultural equipment has been growing, but slowly. The growth of the market is largely influenced by external macroeconomic factors such as the international price of coffee and tea, the country's main foreign exchange earners. Major developments in the sugar industry are another determining factor. This includes rehabilitation of existing cane farms, and new large projects, including the Siaya and Busia sugar projects. These will increase sugar cultivation, which will positively affect demand for AGM. Additionally, with a greater emphasis on food security in the Greater Horn of Africa, there will be increased need to use modern inputs to agricultural production, transportation, storage and food processing.

	1997	1998 ($ Millions)	1999
Total Market size	24.9	27.7	28.5
Total Local Production	NIL	NIL	NIL
Total Exports	NIL	NIL	NIL
Total Imports	24.9	27.7	28.5
Imports from U.S.	3.9	4.5	4.8
Exchange Rate: U.S. $1 = KSH.	58.8	60.4	70.3

MOST PROMISING SUB-SECTORS:	Market Size Est. 1998 ($ Million)
Tractors	10.6
Dairy Farm Machinery & Parts	6.4
Horticultural, Poultry & Bee Keeping Machinery	3.8

8. Laboratory Scientific Instruments (LAB)

Kenya imports all laboratory scientific instruments; there is no local production. The big consumers are institutions of higher learning, government installations (mainly hospitals) and parastatals. As the economy improves, GOK has initiated a "re-equipping" program for all schools with laboratory scientific instruments. Government agencies offering essential services especially hospitals and clinics are expected to follow suit in the re-equipping program. With many Kenyans educated in the U.S., there is a familiarity and affinity with U.S. manufactured scientific equipment.

	1997	1998 ($ Millions)	1999
Total Market Size	26.8	29.5	32.5
Total Local Production	NIL	NIL	NIL
Total Exports	NIL	NIL	NIL
Total Imports	26.8	29.5	32.5
Imports from U.S.	2.5	3.0	3.5
Exchange Rate: U.S. $1 = KSH.	58.8	60.4	70.3

MOST PROMISING SUB-SECTORS:	Market Size Est. 1998 ($Million)
Measuring and Analyzing Instruments	11.4

9. Computers and Peripherals (CPT)

Kenya has a limited computer assembly sector. Manufacturing of computers and peripherals is yet to be established. The Kenyan computer market has historically been awash with undocumented computer imports in response to high tariffs. However, since the GOK substantially reduced the tariffs to around ten percent, the market has expanded and undocumented imports have virtually disappeared. The figures below reflect the estimated documented (legal) market. Although U.S. computers are available in the market, a substantial number of personal computers are imported by affiliates of European-based U.S. firms. These imports are not reflected in the statistics as U.S. imports to Kenya, thus distorting the actual U.S. share of the total market. Mainframes and minicomputers dominate the market in terms of installed value.

	1997	1998 ($ Millions)	1999
Total Market Size	23.9	26.8	30.0
Total Local Production	N/A	N/A	N/A
Total Exports	N/A	N/A	N/A
Total Imports	23.9	26.8	30.0
Imports from U.S.	7.1	7.4	8.3
Exchange Rate: U.S. $1 = KSH.	58.8	60.4	70.3

MOST PROMISING SUB-SECTIONS:	Market Size Est. 1998 ($ Millions)
Personal Computers	4.8
Local Area Network Equipment	2.5
Mainframe Computers	2.1

10. Aircraft and Parts (AIR)

The privatized national carrier, Kenya Airways, has entered the market for replacement aircraft. The airline received three Boeing 737-300 in 1997-98. Kenya has no domestic production of aircraft. With the national carrier contemplating further expansion, additional aircraft orders may be made (subject to availability of finances). Although the Kenyan tourist industry has declined in recent years, there is evidence of resurgence and small aircraft operators have indicated intentions to increase their fleet to meet growing demand, especially to cater to regional tourism. U.S. firms are encouraged to maintain their marketing presence, as big ticket items take many years before a purchase contract is signed. Nairobi's Wilson Airport is the busiest general aviation airport in Africa and serves as the regional small aircraft maintenance center. U.S. exporters should maintain their presence and expand marketing activities for smaller civil aircraft, especially in the face of strong marketing by South African firms.

	1997	1998 ($ Millions)	1999
Total Market Size	144.7	60.2	64.6
Total Local Production	NIL	NIL	NIL
Total Exports	NIL	NIL	NIL
Total Imports	144.7	60.2	64.6
Imports from U.S.	89.0	18.1	19.9
Exchange Rate: U.S. $1 = KSH.	58.8	60.4	70.3

MOST PROMISING SUB-SECTORS: Market Size Est. 1997 ($ Million)

Aircraft Parts	4.1
Aircraft Engines	3.5
Aircraft General Aviation	2.6

B. BEST PROSPECTS FOR AGRICULTURAL PRODUCTS

SUMMARY

RANKING PRODUCT	Est. Total Market Size (Metric Tons)	Est. Imports From U.S. (Metric Tons)
1. Wheat	650,000	25,000
2. Corn	3,200,000	70,000
3. Seeds (Cereals & Horticulture)	20,000	1,000
4. Animal Genetics	1 million	300,000
5. Sugar & Sugar Products	483,000	20,000
6. Oilseed & Products	190,000	10,000
7. Rice, milled	80,000	25,000

A. Rank: 1

B. Name of Sector: Agriculture

C. ITA or PS&D Code: Wheat (0410000)

	1996	1997 (000 Metric Tons)	1998
D. Total Market	620	640	650
E. Total Local Production	288	350	260
F. Total Exports	0	0	0
G. Total Imports	487	465	500
H. Total Imports from U.S.	150	20	25
I. Exchange Rate	57.10	58.80	60.40

Kenya produces only 35-40% of its domestic wheat requirements, estimated at 650,000 tons. Production for the 1997/98 season decreased drastically due to adverse weather conditions. To meet domestic demand, about 465,000 tons will be imported. The government reduced variable duty in February, 1998 to 10% from 50% on top of the normal duty of 25% to ease importation. The highest demand is for hard or high protein wheat used to blend bread flour. Kenya does not produce this type of wheat. High U.S. prices also discourage would-be importers. However, quality standards favor U.S. wheat.

A. Rank: 2

B. Name of Sector: Agriculture

C. ITA or PS&D Code: Corn (0440000)

	1996	1997	1998
		(000 Metric Tons)	
D. Total Market	3100	3200	3200
E. Total Local Production	2900	2200	2300
F. Total Exports	5	0	0
G. Total Imports	10	780	690
H. Total Imports from U.S.	2	80	70
I. Exchange Rate	57.10	58.80	60.40

In mid 1995 to early 1996, Kenya exported about 375,000 tons of corn. After this, the country experienced irregular rains. The drought, coupled with disgruntled farmers unhappy with poor government policies, led to a drastic grain production decline to only 2.2 million tons compared to the previous year's production of 2.9 million tons. The country could not meet its domestic corn requirements of about 3.2 million tons. In 1997, production was hampered by drought in the early months of the planting season followed by exceptionally heavy rains leading to heavy crop losses. The severe crop production deficit prompted the importation of massive amounts of maize. Over 1.1 million tons of maize was imported out of which 850,000 was done by the commercial sector and the rest by donor agencies and the government for relief operations. There was a significant deficit of maize in 1998. To ease importation of the grain, import duty of 25% was waived for three months starting April 1, 1998 to make up for the shortfall in production.

A. Rank: 3

B. Name of Sector: Agriculture

C. ITA or PS&D Code: Seeds (Cereals, Pasture and Horticulture) (0410000)

	1996	1997	1998
		(000 Metric Tons)	
D. Total Market	20	25	30
E. Total Local Production	N/A	N/A	N/A
F. Total Exports	N/A	N/A	N/A
G. Total Import	N/A	N/A	20
H. Total Imports from U.S.	N/A	N/A	1
I. Exchange Rate	57.10	62.70	62.71

Though still relatively young, horticulture is the fastest growing and most dynamic sub-sector in the country. The industry is fully controlled by the private sector. As companies strive to compete with other countries, they are always looking out for the best material to plant and sell. Although the exact figures are not available, some farmers have tried to obtain material from the U.S., especially those eyeing the North American market. There are also good prospects for support services like packaging and irrigation systems and equipment.

For other crops there is a potential market for quality seed. The local seed-producing company, which until recently was government controlled, has often disappointed farmers with poor quality seed. There are some government regulations - especially the quantity ceiling requirement - that sometimes stifle importation, but these are gradually being eased.

A. Rank:4

B. Name of Sector: Agriculture

C. ITA or PS&D Code: Animal Genetics

	1996	1997	1998
		(000 Metric Tons)	
D. Total Market	N/A	N/A	N/A
E. Total Local Production	N/A	N/A	N/A
F. Total Exports	N/A	N/A	N/A
G. Total Imports	350	500	650
H. Total Imports from U.S.	130	256	300
I. Exchange Rate	57.10	58.80	60.40

Two U.S. companies and one local company are actively involved in the importation of dairy cattle genetic material from the U.S. The U.S. companies have reported increasing demand for the U.S. genetics from a value of $23,015 in 1993 to $256,161 in 1997. Though no disaggregated volume data is available to support the claim, the market potential is encouraging with a growth rate of 5%. This is bound to rise as farmers begin to appreciate the quality of U.S. genetic material.

A. Rank:5

B. Name of Sector: Agriculture

C. ITA or PS&D Code: Centrifugal Sugar (0612000)

	1996	1997	1998
		(000 Metric Tons)	
D. Total Market	454	453	483
E. Total Local Production	389	401	410

F. Total Exports	24	25	27
G. Total Imports	65	52	73
H. Total Imports from U.S.	20	20	20
I. Exchange Rate	57.10	58.8	60.40

Sugar is Kenya's second most important food crop after corn. In the 1970s and early 80s the country used to produce enough for domestic consumption and some surplus for export. In the late 80s, production started to decline. This, coupled with a high population, necessitated the importation of the commodity. There is generally a deficit of about 100,000 tons every year, which is covered by imports. There have been complaints of late within the industry of dumping of cheap sugar from various worldwide destinations. It is claimed that this has depressed local prices and it has been difficult to move local sugar that is more expensive. Some of the cheap sugar found its way into the country irregularly through non-payment of import tariffs. The government is instituting measures to counter this so as to protect the local industry, and substantially higher duties are the likely result.

Post's consumption estimate was 484,000 tons in 1998 up from 435,000 tons in 1996. Kenya Sugar Authority forecast is much higher at 580,000 tons in 1998 from 520,000 in 1997.

Although production has improved, the country is far from being self-sufficient. Most imports are likely to be refined sugar for industrial use. The industrial sector consumes 60-70,000 tons of sugar per year.

The national output is placed at about 410,000 tons.

A. Rank:6

B. Name of Sector: Agriculture

C. ITA or PS&D Code: Oil Seeds & Products (06001)

	1996	1997 (000 Metric Tons)	1998
D. Total Market	185	190	200
E. Total Local Production	80	80	80
F. Total Exports	0	0	0
G. Total Imports	130	140	150
H. Total Imports from U.S.	19	80	100
I. Exchange Rate	57.10	58.80	60.40

Edible oil production in Kenya continues to face problems. This is mainly caused by importation of relatively cheap palm oil, low yielding seed varieties, lack of farm credit and a poor technical support system. As a result, edible oil production has leveled off at 80,000 tons for the past couple of years.

Sunflower oil dominates the country's oilseed production, accounting for 90% of the total output. In recent years, about 8,000 to 10,000 tons of edible oil are produced from corn. Demand for cotton seed is high, but production is low. Considerable amounts are irregularly obtained from neighboring countries.

The government and some non governmental organizations are trying to promote the growing of soybeans. However, current production cannot meet the demand. The bulk of soybean requirements are imported. Over the past couple of years a considerable amount has been obtained from the U.S. and the trend is likely to continue.

A. Rank: 7

B. Name of Sector: Agriculture

C. ITA or PS&D Code: Rice Milled (0422110)

	1996	1997	1998
		('000 Metric Tons)	
D. Total Market	96	98	100
E. Total Local Production	34	40	40
F. Total Exports	0	0	0
G. Total Imports	65	65	70
H. Total Imports from U.S.	108	18	25
I. Exchange Rate	57.10	58.80	60.40

About 90% of paddy produced in Kenya is through the National Irrigation Board (NIB) which contracts farmers in four main irrigation schemes. Production has however stagnated at an average of 33,000 tons a year for the past several years. This makes up only 45% of the domestic requirements necessitating importation of more than 55% of milled rice. Local rice is popular, though expensive. Most of the imported rice originating from Asian countries is much cheaper, although import tariffs for rice are more than 40%. Because of the cheaper imports, NIB is unable to move its rice stocks fast, leading to a situation where the government is threatening to raise the import tariffs even further.

Rice is popular in the urban areas of the country and along the coastal region. Of late there are noticeable American brands in more affluent supermarkets. At this level currently the market seems promising, mainly among the expatriate community and wealthier Kenyans.

C. SIGNIFICANT INVESTMENT OPPORTUNITIES

1. OVERVIEW

Kenya has a number of growth areas that have not been fully developed. The Government of Kenya through its Investment Promotion Center has identified those sectors the government has prioritized for investment. The U.S. Commercial Service in Nairobi has identified those sectors below in which U.S. firms may be interested in seeking more information.

2. MAJOR INVESTMENT OPPORTUNITIES

A. HORTICULTURE: The horticultural sector is one of the fastest-growing sectors in the economy and is the largest foreign exchange earner after tourism and tea. Opportunities exist in the production and export of products such as cut flowers, French beans, pineapples, mushrooms, asparagus, mangoes, macadamia nuts, avocados, passion fruit, melons and carrots.

B. AGRICULTURE SUPPORT: Investment opportunities exist in seed production, manufacture of sprayers and pesticides, veterinary services, and installation of irrigation systems and services to enhance production of industrial crops such as oil seeds, barley, tobacco, sugar cane and peanuts. Opportunities also exist in support and product distribution, such as cold storage and transport of horticultural produce.

C. AGRO-PROCESSING: Numerous investment opportunities exist in this area. Kenya produces excellent beer utilizing locally-grown barley. There is potential for additional investment due to rapidly increasing domestic and regional demand. Coffee roasting and grinding are carried out in Kenya, and further potential such as production of decaffeinated coffee for export exists. Other areas of potential investment include: tea processing and packaging, fruit canning, and sugar by-products processing.

Sugar production is below the domestic requirement. Molasses, a by-product from sugar production, is processed into power alcohol, potable alcohol, and baker's yeast. There is also considerable potential for the expansion of chocolate and confectionery products. Investment for development of palm oil processing is sought.

Parastatals in the production and processing of sugar, tea, meat and dairy products are earmarked for privatization under the ongoing “Privatization Programme.” This provides major investment opportunities in the sector.

D. POULTRY PRODUCTS: Kenyan poultry meat has a large under-exploited market in the East & Central African region and the Middle East. Hatcheries for the production of chicken, turkeys, and geese for domestic, regional, and export market represent a major investment opportunity.

E. FISHERIES: Kenya's water resources in the Indian Ocean and Lake Victoria provide vast fishing potential. At present, deep sea fishing, prawn and trout farming are in their infancy, but growing rapidly. Large scale fish processing (filleting and fishmeal production), as well as fisheries-support infrastructure, provide major investment opportunities.

F. LEATHER AND LEATHER GOODS: Approximately 1.5 million hides and 5 million skins are available in Kenya each year. Most hides and skins are processed into the wet blue stage for export. Investors have recently begun producing finished leather, offering potential for the manufacture of shoes and other leather products. Kenya and the region have no facilities for production of high quality leather products despite the abundance of hides and skins, most of which are exported to Europe. U.S. investors should consider this sector of considerable potential.

G. LIVESTOCK: Investment opportunities exist in the rearing of livestock for meat and dairy products. Non-conventional livestock farming, for example ostrich and crocodile farming, represent an exciting new area of investment. Approximately 70 percent of Kenya is suitable for ranching. American-owned Solio and Segera ranches are good examples.

Ostrich farming presents the best investment opportunity. Kenya has the resources (both birds and land) to sustain major investment in ostrich farming; some trial small scale farming has come out with very positive results indicative of the potential of this type of farming.

H. PAPER PRODUCTS: Kenya has one major plant producing paper and paperboard from renewable forest products in an integrated pulp and paper mill. However, there is no production of coated white lined chipboards and other boards for packaging. Investment opportunities exist also in the production of paper from other raw materials such as bagasse, sisal waste, straw and waste paper.

I. TEXTILE AND APPARELS: The textile industry in Kenya has traditionally concentrated on cotton textile manufacture, predominantly using local cotton fiber. The basic raw material inputs such as dyes and chemicals are imported, as is all textile equipment and most spares. Investment opportunities exist in manufacturing under bond and the Export Processing Zones for the production of items such as yarn and garments for export.

J. METAL AND ENGINEERING: The country possesses a broad-based metal products sector with various independent engineering foundries and metal-workshops. Opportunities exist in the development of a nucleus foundry making precision castings.

K. VEHICLE PARTS AND ASSEMBLY: The motor vehicle component industry is rapidly developing. Its main area of concentration is to supply replacement parts to the rapidly growing automotive industry, which is dominated by imported, reconditioned Japanese cars. It also supports local motor vehicle assemblers. Opportunities exist for manufacturing of components.

L. ELECTRICAL EQUIPMENT: Kenya is totally dependent on imports in this sector. Only a few manufacturing activities exist in Kenya, and even here, they are rudimentary and are not considered to be major inputs in the industry. Investment potential exists in the full range of this sector.

M. ELECTRONICS: Kenya's electronics industry is still in its infancy and therefore offers major opportunities for direct investment, joint ventures and subcontracting. The country has a relatively large selection of competent personnel in this sector who do not require major investment in training and remuneration. Major areas of interest include: consumer electronics, telecommunication equipment, and support industry items. U.S. investors should consider operating from the Export Processing Zones, which offer key incentives.

N. PLASTICS, CHEMICALS and PHARMACEUTICALS: Many attractive investment opportunities in this sector remain unexploited. Areas of most interest include production of PVC granules, mixing and granulating fertilizer, and textile dyestuff.

O. MINING AND MINERAL PRODUCTS: Investment potential exists in prospecting and mining of minerals such as gold, precious stones and petroleum.

P. CONSTRUCTION: With the increasing population, opportunities exist in the construction of residential housing, including prefabricated and low-cost housing.

Q. TOURISM: Kenya is a major destination for tourists from the U.S., Europe, and the Far East. The country serves as the regional tourist hub and point of departure. If the current slump can be overcome, enormous opportunities will exist for investment in accommodation, recreation and entertainment facilities in the following areas: health spas; new tourist class hotels, villas, holiday centers; a floating ship hotel on Lake Victoria; and water sports facilities. There also are opportunities in ecotourism, which is underdeveloped but is gaining considerable support from environmentalists, the government and the industry in general.

For more information on the above sectors, interested U.S. firms should contact the Commercial Service, U.S. Embassy, Nairobi.

The Government of the United States acknowledges the contribution that outward foreign direct investment makes to the U.S. economy. U.S. foreign direct investment is increasingly viewed as a complement or even a necessary component of trade. For example, roughly 60 percent of U.S. exports are sold by American firms that have operations abroad. Recognizing the benefits that U.S. outward investment brings to the U.S. economy, the Government of the United States undertakes initiatives, such as Overseas Private Investment Corporation (OPIC) programs, investment treaty negotiations and business facilitation programs, that support U.S. investors.

CHAPTER VI

TRADE REGULATIONS AND STANDARDS

A. OVERVIEW

Kenyan business has, for a long time, been overregulated. Donor-initiated economic reforms, however, have dramatically reduced government's interference with trade. Price decontrol, removal of foreign exchange and imports controls, as well as limited deregulation of the grain sector, have become the hallmark of GOK's trade liberalization initiative. This liberalization initiative has strongly enhanced the Kenyan business environment. To enhance the initiative, the Government of Kenya has embarked on import duties rationalization, consistently lowering tariffs, and reduction of licensing requirements. Although customs rules are still detailed and rigidly implemented, affecting smooth operations of such practices as manufacturing under bond, the GOK's gradual rationalization of import duties do make domestic businesses more competitive. The GOK has also embarked on a program of streamlining Customs operations, making it more user-friendly and more consistent with a liberalized economy while maximizing revenue collection. Further, the GOK has reorganized and strengthened Kenya Ports Authority, a GOK parastatal tasked with supervision of Kenyan ports operations, and Kenya Revenue Authority to maximize revenue collection while providing services consistent with international business expectations. These developments are quite a divergent approach from the previous practices which were considered to be strict constructionist approaches, which led to serious delays in clearing both the import of inputs and the export of finished goods and encouraged illegal payments at the customs offices.

Some negative factors, however, still exist. These include issues such as limited access for foreign investors to domestic credit markets and exclusion from some government tenders. Also, Kenyan importers must use local insurance companies to insure imports while the insurance companies are currently required to reinsure part of their business with Kenya Re-Insurance Corporation, a GOK parastatal reinsurance company. However, with the newly introduced insurance privatization legislation, this requirement is soon to be removed.

All commodities imported into Kenya must undergo preshipment inspection, including price comparison, by Government of Kenya-appointed inspection firms.

B. TRADE BARRIERS/TARIFFS AND IMPORT TAXES

Kenya applies tariffs based on the international harmonized system (HS) of product classification. GOK's FY '97 budget proposals reduced the number of tariff rates from six to five and the maximum tariff rate from 40 percent to 35 percent. This rationalization of import duties also includes a reduction of import tariffs on certain capital equipment from 25 percent to 15 percent; duty on specified raw materials used mainly in the plastics and the spinning & weaving sectors was also reduced from 15 percent to 5 percent. Other capital goods and primary raw materials had duty reduced from 10 percent to 5 percent.

The government maintains lower duties and value-added tax for selected items in certain priority sectors. Those items include: palm oil and tallow, bicycles, steel billets, wire rods, graphite lead, windmills, power transformers, cables, and active ingredients used for preparation of human and veterinary pharmaceuticals, fungicides and pesticides.

Non tariff barriers include the requirement to use a GOK appointed inspection firm for imports. Some U.S. firms may find packaging and labeling requirements difficult to meet. The lack of certain intellectual property rights (IPR) protection on videos, for example, makes U.S. firms reluctant to export their goods and services to Kenya. Insurance of imported items being restricted to companies licensed in Kenya also may result in constraints.

Kenya's eight tax treaties normally follow the Organization for Economic Cooperation and Development model for the prevention of double taxation of income. At the moment there is no tax treaty between Kenya and the United States.

C. CUSTOMS VALUATION

All imports with F.O.B. value of more than $5,000 must undergo a pre-shipment inspection for quality, quantity, and price. They must be issued with a Clean Report of Findings by one of the three Government of Kenya appointed inspection agencies: Cotecna Inspections SA, Bureau Veritas-Bivac or Societe Generale de Surveillance (SGS). (See Appendix A, Section 3 for contact information.) Random inspections of shipments will also be undertaken even for shipments with an F.O.B. value below $5,000. Customs valuation is based upon the price determined by the government appointed inspection firm. U.S. firms should ensure that the lowest possible price evaluation is used for customs valuation purposes by the pre-shipment inspection firm.

D. IMPORT LICENSES

Import licensing controls were dismantled in 1993. However, for a small number of imports involving health, environment and security concerns, import licenses are required. Imports are, nevertheless, still subject to some paperwork and approvals. Imports of machinery and equipment classified as equity capital or loan purchases must receive prior exchange approval; banks are not to issue shipping guarantees for clearance of imports in absence of the approval. All imports procured by Kenyan based importers must be insured with companies licensed to conduct business in Kenya. Importation of animals, plants, and seeds are subject to quarantine regulations. Certain pets require an import license. Cats and dogs are issued with an import license only after a veterinary surgeon has certified the animal to have been vaccinated against rabies and has no symptoms of any contagious disease. The Kenyan Embassy in Washington, DC (address: 2249 R Street, N.W. Washington, DC 20008; Tel: 202-387-6101) and other Kenyan embassies may issue the import license. Importation is allowed only at designated entry points.

E. EXPORT CONTROLS

Kenyan export regulations are generally liberal and contain few export restrictions. The country allows export of all items except for the following which are considered either of aesthetic value to the country or have national security importance: military equipment and munitions; antiques and works of art; bullion and coins; archives; live animals other than livestock and pets; wood charcoal and lumber; ivory, rhino horn and other products related to endangered species; human bones; and specially built transport equipment and automotive vehicles (e.g. armored cars and tanks). Export of these items must receive prior authorization by the relevant Kenyan Government ministry before an export license is issued.

F. IMPORT/EXPORT DOCUMENTATION

All Kenyan imports are required to have the following documents: import declaration forms (IDF) and a clean report of findings from the pre-shipment inspection firm, and valid pro forma invoices from the exporting firm. Firms exporting from Kenya need to obtain Form C 29 from Customs Department; and the following documents, which serve as certificates of origin, from Kenya's Ministry of Commerce and Industry: G.S.P. Form A for U.S. destined goods, EURO 1 for exports to the European Union, PTA Certificate of Origin for exports to the PTA (COMESA) area, and Ordinary Certificate of Origin for exports to all other parts of the world.

G. TEMPORARY ENTRY

Kenya allows duty-free entry into the country of goods destined for neighboring countries or for transshipment; however, bonds must be executed. Such goods must be held in bonded warehouses designated by Kenyan Customs Department. Release of the bonded goods into the Kenyan market is prohibited, unless statutory customs payments are made. Samples and exhibits/displays for trade fairs may be imported into the country duty free. It is a Customs Department requirement, however, that the items are re-exported or are certified destroyed by a customs certification officer after use. An importing firm that fails to meet these requirements will be surcharged import duty and value added tax on the presumed value of the items.

H. LABELING/MARKING REQUIREMENTS

Special labeling is required for condensed milk, paints, varnishes, vegetables, and butter ghee. In addition, imports of prepackaged paints and allied products must be sold by metric weight or metric fluid measure. Some U.S. firms may have to adjust to these metric requirements. Manufacturers are required to indicate on the labels of all consumables both the date of manufacture and expiry date. Weights and measure indicators must be in metric form or both metric and imperial forms. Labeling for pharmaceutical products should include: therapeutically active substances, inactive ingredients, name and percentage of any bactericidal or bacteriostatic agent, expiry date, batch number, any warnings or precautions, name and business address of manufacturer, and registration number of the product.

I. PROHIBITED IMPORTS

It is illegal to import the following items unless exemption has been granted by the relevant Kenyan Ministry: plants, soil, endangered species, arms and munitions, and non-pharmaceutical drugs. As the list of prohibited imports is continuously changing, importing firms should always check with the Kenyan Customs Department, Ministry of Finance, P.O. Box 30007, Nairobi, Kenya, Fax: 254-2-718-417, Tel: 254-2-715-540.

J. STANDARDS

The Kenya Bureau of Standards (KBS) is a government regulatory body under Kenya's Ministry of Trade which is mandated to ensure conformance to International Standards Organization (ISO) product standards. KBS conducts product testing for individual product category and undertakes certification. To indicate conformance with mandatory product requirements, a KBS mark is placed on the certified product. It is a legal requirement that all locally manufactured consumer products bear the KBS mark before they are presented for sale. Kenya Bureau of Standards has legal authority to stop sale of uncertified products, and to prosecute the offending parties. KBS conducts random checks on imported products to ensure they conform to ISO standards; those products that do not meet the standards are withdrawn from the market and the importer is prosecuted. To obtain the KBS standards, U.S. exporters should contact: Managing Director, Kenya Bureau of Standards, P.O. Box 54974, Nairobi, Kenya, Tel: 254-2-502-211, Fax: 254-2-503-293.

The Kenya Bureau of Standards is currently in the process of reviewing all standards; great emphasis is on those that are ten or more years old. The reviewing process is quite slow and a great number of the standards are still to be reviewed.

Importation of plant materials, seeds and food grains need certification from the Kenya Plant Health Inspectorate Service (KPHIS). Seed certification is mandatory before it can be sold locally. The process can take up to three years. Kenya is not yet a member of UPOV, but plans to join. Kenya Plant Health Inspectorate Service contacts are: Managing Director, Kenya Plant Health Inspectorate Service, P.O. Box 14733, Nairobi, Kenya; Tel: 254-2-440-087; Fax: 254-2-448-940.

The Pest Control Products Board (PCPB) registers all agricultural chemicals imported or distributed in Kenya following local testing by an appointed research agency. It also inspects and licenses all premises involved in the production, distribution, and sale of the chemicals. The board has the right to test chemicals sold locally to assure their compliance with originally certified specifications. No agricultural chemicals can be imported into Kenya without prior PCPB authorization and chemicals can only be sold for the specific use permitted by the board. Unfortunately violations do occur, endangering the environment. For the most part, however, major horticulture producers and exporters apply strict European Union and U.S. standards in the application and use of agricultural chemicals.

All organizations involved in the manufacture, distribution, and sale of agricultural chemicals in Kenya are members of the Pesticide Chemical Association of Kenya (PCAK). Members have to sign a "Code of Conduct" based on the U.N.'s Food and Agriculture Organization Code. This document requires rigid controls in manufacture, packaging, labeling, and distribution. It also mandates an ethics code. For specific requirements, both PCAK and PCBP can be contacted at: Pest Control Products Board, P.O. Box 14733, Nairobi, Kenya, Tel: 254-2-444-029; Fax: 254-2-446-115.

K. FREE TRADE ZONES/WAREHOUSE

Kenya has 14 export processing zones; six are in operation. The six are inclusive of both GOK and privately owned zones. Samara Industrial Park is Kenya's largest privately owned space-leasing export processing zone. Located in Nairobi's industrial area, it has been operational since 1990. Three others have been set up and are operated by Kenyan firms for their specific needs, while four privately owned zones are being constructed. The Government of Kenya has developed a 230-acre zone out of 721 acres allocated for export processing at Athi River, a Nairobi suburb; GOK is also developing another large export processing zone in Mombasa, Kenya's main seaport. The export processing zones are available to both developers (i.e. those intending to put up structures for lease) and operators.

Incentives provided to manufacturers in the Export Processing Zones include: a ten-year corporate tax holiday and 25 percent tax rate thereafter; a ten year withholding tax holiday on dividend remittance; duty and VAT exemption on all inputs except motor vehicles; stamp duty exemption on legal instruments; exemption from Industrial Registration act, Factories Act, Statistics Act, and Trade Licensing Act; exemption from pre-shipment inspection; on site customs inspection; and work permits for senior expatriate staff.

Export Processing Zone Authority (EPZA) is a Kenya Government parastatal tasked to facilitate participation in manufacturing in the EPZ. Details on joining the EPZ can be obtained from: Chief Executive, Export Processing Zone Authority, British-American Center, P.O. Box 50563, Nairobi, Kenya, Tel: 254-2-712-800; Fax: 254-2-713-704. The Commercial Service in Nairobi will be glad to assist in obtaining specific EPZ details for interested U.S. firms.

The Manufacturing Under Bond (MUB) scheme has been operational in Kenya since 1986. The MUB scheme is accorded most of the incentives of EPZ's without the requirement of location at predetermined sites. The only requirement for the manufacturer is to reimburse GOK all costs of the customs officer and guards at site. During the GOK's FY 96 budget speech, the Minister for Finance liberalized manufacturing-under-bond rules to allow tax deductions for purchase of used equipment on leased sites. The Investment Promotion Center (IPC), another GOK parastatal tasked to encourage and promote investment in Kenya, processes all applications for MUB. IPC contacts are: Executive Chairman, Investment Promotion Center, NBK Building - 8th Floor, P.O. Box 55704, Nairobi, Kenya; Tel: 254-2-221-401; Fax: 254-2-336-663.

Nairobi and Mombasa, Kenya's main trading cities, have sufficiently large warehousing facilities. Most of the warehouses are for private warehousing; however, some specialized ones provide bonded warehousing services. Dutiable goods entering Kenya may be stored in the bonded warehouses without payment of duty and value added tax; but duty and tax become due and payable when the goods are released from the bonded warehouse for local commercial use. Prevailing tariff rates then apply.

L. SPECIAL IMPORT PROVISIONS

Kenyan customs regulations have no special provisions for importation of goods. All goods must be duty rated; however, Kenyan customs legislation allows the Minister of Finance to waive part or all rated duty. Legislation disallows waivers on commercial imports. In practice, waivers are sometimes granted to politically connected individuals.

M. MEMBERSHIP IN FREE TRADE ARRANGEMENTS

Kenya is a member of the 21-country Common Market for Eastern and Southern Africa (COMESA). COMESA is a developing free trade area in which, eventually, all internal tariffs and trade barriers will be removed and a common external tariff will be introduced.

In November 1999, the leaders of Kenya, Uganda, and Tanzania strengthened the three-year-old East African Cooperation (EAC) when it signed the EAC treaty. The treaty provides for the formation of an economic community and removal of trade barriers by November 2003. The EAC intends to enhance and promote economic, trade, and development programs within the East African region through integration of infrastructure; harmonization of inter-territorial trade and tariffs; and in the long-term, currency alignment.

Kenya is also a signatory to major international trade agreements such as the United Nations Conference on Trade and Development, World Trade Organization, and the Lome Convention.

CHAPTER VII

INVESTMENT CLIMATE

A. OPENNESS TO FOREIGN INVESTMENT

The Government of Kenya encourages foreign direct investment. Multinational companies make up a large percentage of Kenya's industrial sector. In the past, government support for foreign investment was often implicitly conditioned on some form of joint venture whereby a related parastatal or a politically well-connected individual became the local partner. This practice is becoming less common with economic liberalization and privatization of public sector enterprises. Particularly since 1994, the Government of Kenya has sought out foreign investment through investment conferences and foreign trips by the Head of State.

Foreign investment is not routinely screened. Nevertheless, investors may choose to take advantage of the one-stop office of the Investment Promotion Center (IPC), created in 1982 under the Ministry of Finance, and an independent agency since 1986. The IPC sets minimal environmental, health and security requirements for its projects. An investment code has been in the works since 1994. The code would set forth guidelines on investment, enumerate the various investment incentives and mandate that all new projects obtain IPC approval. Efforts are under way to harmonize investment regimes in Kenya, Uganda and Tanzania and, eventually, to remove all tariff barriers between the three East African countries. In addition, the three Investment Authorities are working towards harmonizing the investment incentives.

It is Government of Kenya policy to encourage investment that will produce foreign exchange, provide employment, promote backward and forward linkages and transfer technology. The only significant sectors in which investment (foreign and domestic) are constrained are those where state corporations still enjoy a statutory or *de facto* monopoly. These are restricted almost entirely to infrastructure (e.g., power, posts, telecommunications, and ports) and the media (e.g., radio). Even in these sectors, ongoing commercialization and economic reform is expanding the room for private business. Two foreign private sector power producers sell more than 85 MW of electricity to the national grid. Purchase agreements with two other independent power producers (IPPs) were put in place in 1999.

In July 1999, Kenya Posts and Telecommunications Corporation was split into Telkom Kenya, a telecommunications corporation, and Postal Corporation of Kenya, a postal services corporation. The Communications Commission of Kenya (CCK) was also established to regulate those sectors. The government plans to sell up to 49 percent of Telkom Kenya to a strategic partner before an initial public offer is made on the Nairobi Stock Exchange. With the right competitive environment, the potential for private sector investments in telecommunications is enormous.

Branches of foreign companies pay higher income tax rates than local companies and locally incorporated subsidiaries of foreign companies. The 1997/98 GOK finance bill reduced these rates to 40 percent for foreign companies and 32.5 percent for local firms. There is no discrimination against foreign investors in access to government-financed research. Expatriates face difficulties in obtaining work permits, but the requirements are not onerous. The Government of Kenya's export promotion programs do not distinguish between local and foreign-owned manufacturers.

B. CONVERSION AND TRANSFER POLICIES

In December 1995, Kenya repealed its Foreign Exchange Control Act. (Ministerial decrees had previously removed nearly all limitations.) There are no remaining restrictions on converting or transferring funds associated with an investment. No recent changes or plans to tighten remittance policies exist. Foreign exchange is readily available. Kenya has had a floating exchange rate since late 1993. On July 1, 1996, Kenyan shillings became freely convertible into Tanzanian and Ugandan shillings and vice versa.

C. EXPROPRIATION AND COMPENSATION

Article 75 of the constitution prohibits the nationalization of private property without prompt and full compensation. Kenya has also enacted the Foreign Investment Protection Act that protects foreign investment against expropriation. The American Embassy is not aware of any cases of expropriation. During the 1980's, however, the government used its authority on occasion to compel foreigners to sell a portion of profitable companies to political insiders. The Insurance Act was amended, for instance, to require large foreign insurance companies to have at least 33 percent local ownership. Foreign brokerage and fund management firms are allowed to participate in the local capital market only through locally registered companies. Such locally registered firms must have local ownership of at least 51 percent in case of brokerage firms, and 30 percent for fund management firms. Another example is the International Casino in Nairobi, formerly wholly Italian-owned, which sold out to local investors after government regulators ran down its business. More recently, some telecommunications companies have been compelled to sell equity to Kenyans to meet the government's new 60 percent local ownership requirement.

D. DISPUTE SETTLEMENT

The American Embassy is not aware of any outstanding investment disputes involving U.S. or other foreign investors. Government delays in remission of value-added tax on exported goods have caused frustration to business people generally, but have not resulted in litigation. Likewise, corruption and slow clearance of imported inputs, goods and capital equipment has handicapped industry and trade. In the past, tight controls on foreign exchange led to disputes over the repatriation of profits. Liberalization of the economy, and the foreign exchange regime in particular, since 1993 has removed that irritant.

The only legal dispute in the past few years was between the government and the U.S. company Arkel International. Arkel won contracts in 1987 and 1990 to expand a parastatal sugar factory in western Kenya. Arkel ceased work on the project during the second phase due to the government's failure to make full payment. International arbiters ruled in early 1995 that Arkel was owed approximately $5 million. In November 1995, the government agreed to pay the amount in five monthly installments. This dispute was unusually complicated, in part because of repeated parliamentary allegations that the contracts were corruptly obtained. Kenya's judicial system is modeled after the British, with magistrates' courts, high courts in the major cities, and a court of appeal. In addition, there is a separate industrial court that hears disputes over wages and labor terms. Its decisions cannot be appealed. Property and contractual rights are enforceable, but long delays in resolving commercial cases are not unusual. The system is subject to political influence and corruption.

Kenya does not have a commercial code. The Export Promotion Council released in April 1998 a proposed Business Charter, however. It incorporates a Code of Practice for all business and commercial contracts. The proposal has not been widely promoted. Kenya does have a bankruptcy law. Creditors' rights are comparable to those in other common law countries. Monetary judgments are usually made in Kenyan shillings. The government does accept binding international arbitration of investment disputes with foreign investors. Kenya is a member of the International Center for the Settlement of Investment Disputes. It is also a party to the New York Convention of 1958 on the Enforcement of Foreign Arbitral Awards.

E. PERFORMANCE REQUIREMENTS/INCENTIVES

Investors in the manufacturing and hotel sectors are permitted to deduct from their taxes a large portion of the cost of buildings and capital machinery. All locally financed materials and equipment (excluding motor vehicles and goods for regular repair and maintenance) for use in the construction or refurbishment of tourist hotels are zero-rated for purposes of value added tax. The Permanent Secretary to the Treasury must approve such purchases.

Though formerly a higher rate was applied to investments outside the cities of Nairobi and Mombasa, now there is one flat investment allowance of 60 percent. Another general incentive is the Duty Remission Scheme administered by the Export Promotion Programs Office in the Ministry of Finance. Materials imported for use in manufacturing for export or for production of duty-free items for domestic sale qualify. Approved suppliers, who manufacture goods to be supplied to the exporter, are also entitled to the same import duty relief.

Special incentives exist for qualified investors under the Manufacturing Under Bond (MUB) program and the Export Processing Zones (EPZs) Authority. MUB investors receive duty and value added tax exemption on imported plant, equipment, raw materials and intermediate inputs. They are also entitled to an investment allowance of 100 percent on immovable fixed assets. Investors in the EPZs enjoy duty and VAT exemption on imported machinery and raw material inputs; a ten-year corporate tax holiday; exemption from withholding tax (on dividends payable to non-resident shareholders) and stamp duty; exemption from certain industrial regulations and single licensing. Most new investors prefer the EPZs because they also provide power and water as well as support services.

With the exception of the insurance and telecommunications sectors and other infrastructure and media companies discussed earlier, Kenya does not require that its nationals own a percentage of a company. For insurance companies, at least one-third of the controlling interest, whether in terms of paid-up share capital or voting rights, must be held by citizens of Kenya. In the telecommunications sector, at least 60 percent equity must be owned by Kenyan nationals. In other sectors, joint ventures are encouraged but not mandatory. The percentage of foreign equity need not be reduced over time. Technology licenses are, however, subject to scrutiny by the Kenya Industrial Property Office (KIPO) to assure that they are in line with the Industrial Property Act. The goal is to obtain new technology and know-how. Licenses are valid for five years and are renewable. This function of KIPO is under review. Foreign investors are free to obtain financing locally or offshore.

The government no longer steers investment to specific geographic locations. Local content rules are applied but only for purposes of determining whether goods qualify for preferential duty rates under the Common Market for East and Southern Africa. Kenya has replaced its old policy of import substitution with one of export promotion. Employment of Kenyan nationals is strongly encouraged. In fact, the Immigration Department requires that a minimum of Ksh 3 million (approximately $42,000) be invested before it will authorize work permits for foreigners. The Investment Promotion Center is more flexible. Its minimum is Ksh 2 million (approximately $28,000). Exceptions have been made. Foreign employees are expected to be key senior managers or to have special skills not available locally.

F. RIGHT TO PRIVATE OWNERSHIP AND ESTABLISHMENT

Foreign and domestic private entities have a right to establish and own business enterprises and engage in nearly all forms of remunerative activity. The principal exceptions concern public utilities (infrastructure) and the media. Recent energy sector reforms have provided limited opportunity for private power generation to fill in a national power deficit. By statute, manufacturing companies are not permitted to distribute their own products. In addition, local officials have used their licensing authority to ensure the retail trade is mainly in the hands of Kenyans. Private enterprises can freely establish, acquire and dispose of interests in business enterprises.

In general, competitive equality is the standard applied to private enterprises in competition with public enterprises. Nevertheless, certain parastatals have enjoyed preferential access to markets: Kenya Reinsurance, for instance, has a guaranteed market share (although it is being phased out, and there are plans to privatize the parastatal). Kenya Seed Company continues to face fewer barriers in marketing than its foreign competitors. Easier access to cheap government credit is another advantage from which some state corporations have benefited. The National Oil Corporation of Kenya, for example, is developing a retail marketing operation using government funds. Certain parastatals have also been held to lower licensing standards. This was the case until recently with Kenya National Assurance Company (KNAC). KNAC had been insolvent for at least five years, yet it was permitted to do business until June 1996.

G. PROTECTION OF PROPERTY RIGHTS

Secured interests in property are recognized and enforced. In theory, the legal system protects and facilitates acquisition and disposition of all property rights -- lands, buildings and mortgages. In practice, obtaining title to land is a cumbersome and often corrupt process. It is frequently complicated by improper allocation to third parties of access and easements. That many of the 99-year government leases covering much of Kenya's urban land are expiring is another extenuating factor as is the general unwillingness of the courts to permit mortgage holders to sell land to collect debts. Furthermore, foreigners may require presidential approval to acquire large tracts of agricultural land or any seashore property.

Protection of intellectual property -- copyrights, patents and trademarks -- is inadequate. Piracy of audio and videocassettes is rampant. About $3.5 million is lost every year as a result of illegal software being used, according to the Business Software Association – a computer industry association established to protect software copyrights and to prevent software piracy. The software piracy rate in Kenya is about 90 percent. The most prevalent form of software piracy in Kenya involves business use of unauthorized copies. Kenya is in the process of conforming its legislation to the WTO TRIPs Agreement. Patents, trademarks and trade secrets are the responsibility of the Kenya Industrial Property Office in the Ministry of Research, Technical Training and Technology. Copyrights are the responsibility of the Attorney General's office. Kenya is a member of most of the major international and regional intellectual property conventions. The Copyright Act was amended in late 1996 to provide protection for computer programs. Literary, musical and artistic works were already protected. Penalties for infringement remain low, and enforcement and the understanding of the importance of intellectual property are poor. Criminal penalties associated with software piracy in Kenya include a fine of up to SHS 200,000, a jail term of up to five years and confiscation of pirate operation hardware.

H. TRANSPARENCY OF THE REGULATORY SYSTEM

Kenyan regulations allow for the establishment of public and private corporations, as well as joint ventures and branches. Under the law, manufacturers may not distribute their own products, and they are required to supply information to the government about their distributors. The Government of Kenya has legislation to control monopolies and restrictive trade practices.

Private foreign investment in Kenya is governed by Kenya's Foreign Investment Protection Act (FIPA). The Act is being reviewed in light of recent liberalization of foreign exchange and import controls, and as a result a number of provisions are no longer applicable. For example, the previous requirement that foreign investors apply for a certificate of approved enterprise from the Treasury that allowed them to repatriate capital and profits has been removed. There are no formal requirements on minimum local participation in either equity or management under FIPA.

Foreign investors are required to sign an agreement with the government stating training arrangements for phasing out expatriates. Expatriate work permits are increasingly difficult to renew or acquire. Government approval for ventures in agriculture, distributive trade, and small-scale enterprises have become more difficult to get as the government seeks to indigenize these sectors.

There are no special requirements imposed on foreign investors. All investors (foreign and local) receive the same treatment in the initial screening process. The government screens each private sector project to determine its viability and implications for the development aspirations of the country. For example, a rural agro-based enterprise, with many forward and backward linkages, is likely to receive licensing fairly quickly. However, new foreign investment in Kenya has in the past been constrained by a time-consuming and highly discretionary approval and licensing system that has been vulnerable to corrupt practices. To counter this, the government amended the Investment Promotion Center Act in September 1992 to require the Center, through its "one-stop-office", to process applications for foreign investors within one month.

Despite the changes in 1992, the process still does not work well. The Government of Kenya has proposed, therefore, to adopt a new investment code which will cover local and foreign investment and govern the Investment Promotion Center. The code is expected to set clear guidelines for processing investment applications and will incorporate the means to ensure transparency and accountability. It will provide information on various incentives to investors, including the procedures for obtaining such information, and how the incentives are implemented. At present, the IPC lacks proper authority to implement many available incentives and procedures.

Incoming foreign investment through acquisitions, mergers or takeovers is governed by antitrust legislation that prohibits restrictive and predatory practices that prevent the establishment of competitive markets. The legislation is also aimed at reducing the concentration of economic power by controlling monopolies, mergers and takeovers of enterprises. Mergers and takeovers are subject to the Companies Act, the Insurance Act (in case of insurance firms) or the Banking Act (in the case of financial institutions).

The Government of Kenya launched a privatization program in 1991, in which 207 enterprises were targeted for privatization. As of September 1998, the Government of Kenya had divested from 165 public enterprises. Plans to privatize two large sugar companies and the Kenya Reinsurance Company are currently in the works. Senior officials - both government and non-government - have repeatedly stated that Kenyans should be given higher priority in the privatization exercise. Divestiture through public share issues provides little opportunity to corporate investors. In past divestitures, the Capital Markets Authority has seen to it that shares are thinly spread over many applicants thereby ruling out the possibility of a foreign investor acquiring a big stake in a company. However in the privatization of Kenya Airways, a foreign company acquired 23 percent of the shares as a "strategic" investor in the airline.

Under a World Bank export development program, the Government of Kenya has abolished, except for a few categories, export-licensing requirements and initiated three export incentive schemes for both local and foreign investors. It provides import duty/value added tax remission to importers of raw material inputs used for manufacture of exports. In addition, the Government of Kenya has an Export Assistance Scheme and an Export Development Support project, both of which provide grants for export promotion including export market studies and seminars. Manufacturing under bond facilities and export processing zones also exist.

In 1990, the Government of Kenya strengthened the law on health and safety in factories. The revised act authorizes the Labor Minister to undertake formal investigations of occupational accidents and disease. Factories that employ over 20 employees are required to have a safety and health committee. The Government of Kenya also has established a National Advisory Committee on Occupational Health and Safety and an Occupational Health and Safety Fund.

I. EFFICIENT CAPITAL MARKETS AND PORTFOLIO INVESTMENT

Kenya has a small capital market consisting of the government controlled Capital Markets Authority, one securities exchange (the 39-year old Nairobi Stock Exchange), 20 securities and equities brokerage firms, and 12 investment advisory firms. The NSE trades in stocks from 62 publicly quoted companies and had a market capitalization of Ksh 129 billion ($1.8 billion) by the end of 1998. The daily volume of trade varies from Ksh 10 million ($140,000) to Ksh 30 million ($422,000), involving an average of about 340 transactions. In 1994, the NSE, which operates on an open-cry system, moved into a modern facility.

There are plans to introduce another board to encourage listing by smaller companies and startups. At present, only Kenyan companies are permitted to list. Activity at the NSE has been diversified through trading in commercial paper and corporate bonds issued by private companies. Trading in these debt instruments is regulated through a set of guidelines that were issued by the Capital Markets Authority in June 1997. The guidelines were developed in collaboration with the private sector. They allow private companies to raise funds from the public without being quoted on the NSE. Beginning April 1997, secondary trading of floating rate Treasury Bonds also began in the NSE. A Central Depository System (CDS) for Government securities exists. This has encouraged the development of a secondary market for the Government’s one-year floating rate bond. The CDS has also opened a shop window for small investors with less than the Ksh 1 million minimum requirement to invest, in multiples of Ksh 50,000. Independent rating of companies operating in the money and capital markets is encouraged. Expenses related to credit rating services by listed companies and other issuers of corporate debt securities are tax deductible.

Since 1995, foreign companies can buy stocks not exceeding 40 percent of a listed company's total quoted shares; foreign individuals may purchase up to 5 percent. This means that in practice relatively few blue chip stocks are available for purchase by foreigners since most of them are already foreign controlled (more than 50 percent). In keeping with spirit of East African Cooperation, a Memorandum of Understanding was signed in March 1997 to establish the East African Securities Regulatory Authority. The Authority will be the central body charged with coordinating regional developments of capital markets.

Credit is allocated on market terms. In the early 1990s, politically well-connected banks received loans from the Central Bank at concessionary rates for little or no security. These abuses ended with the appointment of a new Central Bank Governor in 1993. Changes to the Banking Act proposed in June 1998 budget seek to ensure more accountability for bank directors. Beginning in January 1999, directors' loans are now set at market rates of interest. Such loans are disclosed in banks' audited accounts. Foreign investors are able to obtain credit on the local market. The number of credit instruments is relatively small. Legal, regulatory and accounting systems are generally transparent and consistent with international norms. The Central Bank of Kenya Act has been amended to provide security of tenure to its Governor, to increase the Bank's operational autonomy, to strengthen its bank supervision functions, and place statutory restrictions on government borrowing from the Bank.

In 1997, the total assets of Kenya's four largest banks -- Kenya Commercial Bank, National Bank of Kenya, Barclays Bank Kenya, and Standard Chartered -- was Ksh 198 billion, or
$2.8 billion at current exchange rates. This represents 52 percent of total assets of all the 48 commercial banks. This uneven distribution of market share has hindered competition in the sector. Asset quality of Kenyan banks is poor, and is deteriorating. In early 1999, the proportion of non-performing loans to total assets was 30 percent. A significant number of Kenyan banks are struggling, including the National Bank of Kenya, which in 1999 had to call on the government for assistance. The banking problems in Kenya are the result of poor bank management, inadequate government supervision, political pressure to make loans that are rarely repaid, and current economic conditions.

The banking system has weathered several crises intact, including high inflation rates early in the nineties. By the end of May 1998, all non-bank financial institutions and 26 (or 54 percent of all) commercial banks had less than the statutory minimum capital base requirement (by end of 1999) of Ksh 150 million and Ksh 200 million respectively. These institutions face daunting tasks of increasing their capital base to the required minimum in time. Most of the institutions will have to merge to meet this requirement. In 1994-96, Kenya's finance companies converted into banks (at the Central Bank's direction). Effective July 1998, commercial banks and other deposit taking institutions were required to observe a fortnightly 14 percent cash ratio, subject to a daily minimum of 11 percent. This requirement has often been exceeded in the past. Clearinghouse has completed the Magnetic Ink Character Recognition (MICR) system that was initiated in 1996 to speed up the clearing of checks. Despite this modernization, check-clearing process has not quickened significantly. Both residents and non-residents are allowed to operate foreign currency accounts.

"Cross-shareholding" and "stable shareholder" arrangements are not used to restrict foreign investment through mergers and acquisitions. Removal of taxes on sales of stock held as an investment by insurance companies in the June 1997 budget boosted turnover on the exchange. Hostile takeover defenses are uncommon. Expenses related to credit rating services by listed companies and other issuers of corporate debt securities are tax deductible. Private firms are free to adopt articles of incorporation which limit or prohibit foreign investment, participation or control. Foreign participation in industry standards setting organizations is welcomed. No other practices by private firms exist to restrict foreign investment.

J. POLITICAL VIOLENCE

There have been several clashes in the recent past between police and demonstrators over political reform and other issues. Although some shops in major cities, notably downtown Nairobi, have been damaged or looted during recent disturbances, the damage has been limited and not directed at foreign companies. In August 1997, ethnic violence hit Mombasa and other nearby areas on the coast. Most damage was done to property owned by non-coastal Kenyans. Tourists and foreigners were not targeted. Kenya enjoys good relations with all its immediate neighbors.

The terrorist bombing of the U.S. Embassy in August 1998 was the result of transnational terrorism and unrelated to domestic Kenyan issues.

K. CORRUPTION

Kenya has adopted laws to combat corruption. The Prevention of Corruption Act was amended in late 1997 to create the Kenya Anti-Corruption Authority (KACA). A Director, who is appointed by the President, but has security of tenure, heads the Authority. KACA is established as an independent body by an Act of Parliament. It has wide-ranging powers. For example, the Director can take over cases of corruption from the police, and its employees have powers similar to those of the police. They are empowered to launch investigations, seize documents and other evidence, compel witnesses or suspects to testify, and to arrest and prosecute. Vigorous enforcement of the law by the KACA has been lacking, however. KACA got off to a poor start when its first Director was sacked in 1998. President Moi appointed a new Director in March 1999. Although annual reports of the Controller and Auditor-General and the Auditor-General for Corporations have identified specific areas of corruption in the financial accounts of ministries and parastatals, little action has been taken. The same is true of the reports of the two parliamentary watchdog committees that review these findings. Anti-corruption efforts would be strengthened by the adoption of legislation requiring, for example, public officials to disclose their assets and barring them from making decisions on issues where they have a conflict of interest.

U.S. firms have identified corruption as a major obstacle to foreign direct investment. Corruption is pervasive in most sectors, particularly in government procurement and dispute settlement. A police unit was recently established at the Kenya Revenue Authority to tackle tax evaders, including scandals involving duty evasion at the Port of Mombasa. In the 1980s, corruption was one reason so many U.S. companies disinvested. There has been slow progress in fighting corruption. In an ongoing case, three former senior Kenya government officials and a Nairobi businessman and his firm have been accused of stealing Ksh 5.8 billion ($82 million) belonging to the government in 1993. The case is part of a massive financial scam in which the Central Bank and Treasury lost over Ksh 21 billion ($400 million at average exchange rate of the period) in the early 1990s.

L. BILATERAL INVESTMENT AGREEMENTS

Kenya signed a bilateral trade and investment agreement with Germany in 1996. According to the Investment Promotion Center, agreements are pending with the United Kingdom, Italy, and Russia. There is no BIT with the United States.

M. OPIC AND OTHER INVESTMENT INSURANCE PROGRAMS

The U.S. Overseas Private Investment Corporation (OPIC) has one project in Kenya under its Africa Growth Fund that provides some equity investment. There is certainly potential for more OPIC programs. Kenya is a member of the Multilateral Investment Guarantee Agency.

In addition, the U.S. Export-Import Bank is open to short and medium-term financing for government and private sector entities in Kenya.

The exchange rate of the Kenya shilling is market determined, and the U.S. dollar is easily obtainable from banks or foreign exchange bureaus. Average exchange rate in 1997 was Ksh 58.80 to $1.00. In 1998, the average exchange rate was Ksh 60.40 to $1.00. The average exchange rate for 1999 was Ksh 70.30 to $1.

N. LABOR

Kenya's estimated 2.6 percent annual population growth rate translates into a high demand for new jobs annually. In 1997, an estimated 1.2 million males and 473,400 females engaged in formal wage employment. In the formal sector, women worked overwhelmingly in services, men in agriculture, education, manufacturing, building and construction, trade, and transport. The highest percentage of female formal sector workers was in education, where women constituted 40 percent of the total work force. About one-quarter of the women worked in this area, but only 15 percent of men. Women also constituted more than 25 percent of the work force in finance, insurance, and other business services and over 29 percent in public administration and agriculture. Women, however, staff some textile factories almost exclusively.

The informal sector, known as *jua kali*, employs approximately 64 percent of all Kenyan workers and, thus, plays an important role in Kenya's economy. Indeed, a report by a Kenyan think-tank, the Institute of Economic Affairs, shows that the informal sector is the most dynamic in the economy in terms of job creation, accounting for about 90 percent of new jobs outside the smallholder farm sector. Examples of informal sector business activities include carpentry, motor vehicle repair, tailoring, and small-scale manufacture of spoons, cooking pans and ovens. The Government of Kenya and donors are striving to improve working conditions and infrastructure in the informal sector. However, there often is a gap between government policy and implementation.

Kenya's laws provide many safeguards and benefits for workers, with mechanisms and procedures to address complaints relating to worker rights. The normal work week is 40 hours, after which overtime must be paid. Kenya also has a minimum wage scale for twelve different categories of employees. In addition, benefits, ranging from housing to home transportation allowances, account for 25 to 50 percent of a Kenyan worker's compensation package. Kenyan law establishes detailed environmental, health, and safety standards that are not strictly followed in practice.

O. FOREIGN DIRECT INVESTMENT STATISTICS

Kenya does not keep data on the value of FDI (position/stock and annual investment capital flows) by country of origin or by industry sector destination. Neither is data available on Kenya's investment abroad. It is however estimated by the Investment Promotion Center that by 1994, cumulative foreign direct investment totaled more than $1 billion.

More than 200 foreign companies are registered in Kenya, the majority from United Kingdom, Germany, and the United States. A list of some large foreign investors currently operating in Kenya is as follows:

COMPANY	COUNTRY OF ORIGIN	PRODUCT
Agip	Italy	Petroleum products
BASF	Germany	Chemicals/plastics
BAT Industries	UK	Tobacco/cigarettes
Bata (K) Ltd.	Canada	Shoes
Bayer AG	Germany	Pharmaceuticals
British Oxygen	UK	Industrial gases
British Petroleum	UK	Petroleum products
Cadbury Schweppes	UK	Confectionery/beverages
Caltex Oil	USA	Refinery products
Cementia	Switzerland	Portland cement
Ciba Geigy	Switzerland	Pharmaceuticals
CMB Packaging	France	Metal packaging
Coca-Cola	USA	Beverages

Colgate Palmolive	USA	Hygiene products
CPC	USA	Corn products
General Motors	USA	Vehicle assembly
Glaxo	UK	Pharmaceuticals
Hilton Int.	UK	Hotels
Hoechst AG	Germany	Industrial chemicals
Intercontinental Hotel	Japan	Hotels
Lonrho PLC	UK	Motor/vehicles/hotels/farming livestock/meat/newspapers/ transport
Mitsubishi	Japan	Motor vehicles
Mobil	USA	Petroleum products
Nestle	Switzerland	Milk products and beverages
Orient Paper Mills	India	Paper products
Raymond Woolen Mills	India	Textiles
Safari Park Hotel	South Korea	Hotel
Shell	UK	Petroleum products
Sterling Winthrop	USA	Pharmaceuticals
Sumitomo Corp.	Japan	Construction
Total	France	Petroleum products
Unilever	UK	Consumer goods/tea

CHAPTER VIII

TRADE AND PROJECT FINANCING

A. THE KENYAN BANKING SYSTEM

Although Kenya inherited at the time of independence a financial system typical of all British colonies in Africa -- a currency board; a commercial banking system wholly dominated by two major British banks; a Post Office Saving Bank and a small number of non-bank financial institutions (NBFIs) providing mortgage finance, insurance and other near bank financial services -- the sector has grown into a substantial, sophisticated complex. The sector comprises: The Central Bank of Kenya (CBK); 48 domestic and foreign commercial banks with branches, agencies and other outlets throughout the country; 11 NBFIs with an excellent branch network in Kenya's major cities; 6 building societies; 37 insurance companies; 7 development finance companies providing long-term finance; the Post Office Savings Bank, with a large network of branches around the country; and over 1,500 poorly-structured savings and credit unions.

In spite of the number of established banks, the banking sector is essentially dominated by four major commercial banks with an established tradition of working together. However, NBFIs recently have exhibited an ability to compete with commercial banks, particularly because of the less restrictive regulatory framework within which they operate. On paper, NBFIs operate as merchant or investment banks. In practice, they operate as commercial banks, taking deposits and making short-term loans. In June 1994, the Central Bank instructed NBFIs to convert and operate as commercial banks. So far 18 NBFIS have become banks and six merged with parent commercial banks. Kenya, already a regional leader, is expected to develop one of the largest commercial banking industries in Africa.

Despite the existence of a relatively developed and sophisticated financial system, Kenya's capital market is still in its infancy. The market for short-term securities is dominated by Treasury Bills and bonds. There is relatively light trading in commercial paper, and there now exists a secondary market in government paper.

The Nairobi Stock Exchange (NSE) is the only licensed trading exchange in the country. NSE originally started as a private association, but is now a fully fledged stock market. Currently, there are 62 companies listed. The value of shares traded increased from $65.1 million in 1995 to $68.7 million in 1996. In 1997, the value of shares traded increased substantially to $104.6 million, before declining to US$ 70.6 million in 1998. NSE trading has slightly declined as a result of reduced share prices. The NSE index as of December 1996 was 3,114.1 compared to 3,468.9 in December 1995. The index fell further to 2,962.1 at the end of 1998, from 3,115.1 at the end of December 1997. The number of shares traded increased from 59.4 million in 1995 to 111.5 million in 1998. Market capitalization as of December 1998 stood at $2.08 billion, up from $1.89 billion in 1995.

PERFORMANCE OF THE NAIROBI STOCK EXCHANGE (NSE), 1995-1998

	1995	1996	1997	1998
NSE 20-Share Index	3468.88	3114.11	3115.14	2962.06
Market Capitalization, in KShs Millions	112,880	99,946	114,311	129,021
Total Number of Shares Issued	1,800,606,660	2,530,917,261	2,965,435,428	3,303,614,139
Number of Shares Traded	59,385,414	113,559,922	143,583,761	111,514,214
Value of Shares Traded, in KShs Millions	3,345	3,962	6,148	4,262

Source: Nairobi Stock Exchange

The exchange is fully computerized and is currently in the process of installing electronic central depository system (CDS). However, the NSE is still in its infancy. The strengthening of the Capital Markets Authority, the exchange regulator, through revised legislation in 1994 and the June 1996 budget measures helped in the growth of the exchange. Foreign firms accounted for about 75 percent of total market capitalization as of June 1995. With the right macroeconomic framework, it has the potential of joining the ranks of other strong emerging markets.

B. FOREIGN EXCHANGE CONTROLS AFFECTING TRADING

In conjunction with the removal of import licensing requirements, Kenya has moved to a market-determined exchange rate. The Exchange Control Act has been repealed. The repeal frees all the existing controls on foreign exchange. This policy measure has attracted short term capital inflows. The Central Bank of Kenya licenses foreign exchange bureaus. These bureaus are open longer hours than banks and are expected to increase competition in the foreign exchange market. Currently, only the following capital transactions have foreign exchange restrictions:

1) Investment by foreigners in shares (set in June 1995 at not more than 40 percent of shares traded on the NSE); and

2) Investments by Kenya residents outside Kenya exceeding $500,000 must be approved by the Central Bank.

Residents and non-residents are now permitted to buy or sell foreign exchange from/to authorized dealers up to the equivalent of $5,000 without the need to obtain permission from the Central Bank of Kenya. The recent GOK-sanctioned setting-up of forex bureaus is facilitating smaller forex transactions.

Exporters are now authorized to retain all their export proceeds in foreign currency accounts with local banks or sell such proceeds to obtain local currency. All restrictions on current account transactions have been removed, including restrictions with regard to the annual maximum amount of foreign exchange remittable. Unremitted funds earned before February 28, 1994, may be remitted by commercial banks at a rate of $100,000 per year. Remittances in excess of this amount require CBK approval. The Central Bank has streamlined the paperwork requirements by abolishing the requirement to fill out export forms.

The Central Bank has also revoked its provision regarding blocked funds. Residents may borrow abroad with no limit on the amount. However, the government will not guarantee any borrowing by the private sector. Although payments under technical, management, royalty and patent fees are freely remittable, the relevant agreements and renewals will be subject to approval.

Persons leaving or entering Kenya are permitted to take or bring into the country Kenyan currency up to a maximum of Ksh 100,000 and foreign currency equivalent to a maximum of $5,000. Amounts beyond these limits may be taken out or brought into the country, provided they are declared at the point of departure or entry.

C. GENERAL FINANCING AVAILABILITY

U.S. companies doing business or interested in doing business with Kenya have the full range of private sector financing available to U.S. firms doing business in other countries. This includes a range of commercial financing available to American firms in the U.S. Most major commercial banks in Kenya have correspondence relationships with U.S.

banks. See Section E below for a list of such banks. Interested firms may contact their local banker or their nearest U.S. Department of Commerce District Office for more details. Alternatively, U.S. firms may seek advice by calling 1-800-USA TRADE. For specific financing of projects and investments in Kenya, U.S. firms may contact financial organizations listed below in Section F (Sources of Finance).

Kenya is currently on cover for short and medium term Export-Import Bank (Exim Bank) programs for the private sector, but is off cover for government transactions. Interested U.S. firms may contact Exim Bank, Washington, D.C., Telephone: (202) 565-3933; FAX: (202) 565-3931 for further information.

Multilateral Development Banks, NGO's, and other international aid organizations have hard currency sources for financing their imports and projects. The World Bank and the African Development Bank are two major sources of loans for commercial projects in Kenya. Substantial project aid was maintained by both bilateral and multilateral donors during the period after the end of 1991 when balance of payments support was suspended. World Bank balance of payments support was resumed in 1993. U.S. firms may wish to target their marketing in Kenya in the first instance to these types of organizations, and then expand to other commercial sectors after gaining experience in the market. Interested U.S. firms can contact the Multilateral Development Bank Office, U.S. & Foreign Commercial Service, U.S. Department of Commerce, Washington, D.C., Tel: (202) 482-3399, FAX: (202) 482-3914 for further information.

The Government of Kenya does not have a specialized financial institution exclusively focusing on export/import business like an export/import bank. Nonetheless, bank services similar to Eximbank-type financing and bundling facilities are undertaken by multinational banks. Many banks and specialized financial institutions in Kenya finance Kenyan exporters and importers. These banks have adequate liquidity to meet the financial demands of Kenyan firms. The credit supplied is highly influenced by the needs of the local firm, its stature in the market and the experience and its financial position. Credit terms are stiff to meet, usually requiring fixed assets exceeding one to three times the amount of credit requested.

D. HOW TO FINANCE EXPORTS/METHODS OF PAYMENT

Differences in business practices extend into export financing. U.S. firms are strongly advised to discuss the best methods and transaction details with an experienced international bank familiar with Kenya. U.S. firms are advised to determine the range of financing offered by competitors. Further information on financing sources is given in Section C. above.

There are several basic methods of receiving payment for products sold in Kenya, the choice of which is determined by the degree of trust in the buyer's ability to pay. Payment alternatives U.S. exporters might consider, in order of the most to the least-secure include: 1) cash in advance, 2) confirmed irrevocable letter of credit (if concerned about the importer and international standing of his bank), 3) irrevocable letter of credit (if concerned only about the reliability of the importer), 4) documentary drafts for collection (checks drawn on the importer's bank), 5) open account, and 6) consignment sales. Being paid in full in a timely manner is always a major concern of any exporter, as is relative commercial risk.

U.S. exporters selling to Kenya are advised only to transact business on the basis of an irrevocable letter of credit confirmed by a recognized international bank. Any other form of payment is potentially hazardous.

The U.S. Department of Commerce offers an International Company Profile (ICP) service, which provides U.S. exporters with credit information and industry standing and reputation of potential Kenyan importers. Interested U.S. firms may contact their nearest U.S. Department of Commerce Export Assistance Office for further details.

Kenya has various types of export financing and insurance schemes that are attractive and quite useful to Kenyan exporters. These include overdraft facilities, revolving lines of credit, pre-shipment rediscounting facility, and post-shipment financing.

E. TYPES OF AVAILABLE EXPORT FINANCING AND INSURANCE

U.S. firms requiring information on export financing can contact their nearest U.S. Department of Commerce District Office, their international bankers, or call 1-800-USA-TRADE. As indicated above in Section C, Kenya is off cover for Exim Bank programs to the government, but is initiating a program, including insurance, for short-term U.S. exports to the private sector.

The Overseas Private Investment Corporation (OPIC), Washington, D.C., Tel: (202) 336-8400, FAX: (202) 408-9859 supports and promotes U.S. investment in Kenya by financing investments projects through loans, loan guarantees, or equity investment and by providing insurance against certain types of political risk including non-convertibility, and civil disorder. Further information about OPIC's programs is available from the nearest U.S. Department of Commerce District Office. For other sources of export financing available to U.S. firms, please see Section C above.

Kenyan banks provide the following pre-shipment facilities to Kenyan exporters which include the following:

1) Advances against contracts;
2) Advances against letters of credit (L/C);
3) Overdraft facilities; and
4) Issue local currency for indirect domestic exporters.

Eight commercial banks provide post-shipment financing to exporters. Some of the facilities available under this scheme are:

1) Confirmation of Letters of Credit (L/C);
2) Discount sight Drafts Presented under L/C;
3) Discount Time Drafts under L/C;
4) Discount Time drafts Under Export Collections; and
5) Overdraft facilities.

The receipt of a letter of credit and presentation of the appropriate documents evidencing shipment is required for banks to provide post-shipment facilities. Acceptances are created under the issuing bank's letter of credit in New York or London where a secondary market exists. Kenyan banks also create acceptances that are held in portfolio due to lack of a secondary market.

To qualify for any of the above facilities, the client must show evidence of appropriate security to the bank. However, multinational companies with lines of credit with foreign banks in London or New York do not need collateral. Advances against collateral vary from about 40% of value of the property to as much as 85% on more liquid cash and securities. Lending against inventory is not considered by banks. Domestic collateral either in real property or in cash and securities that is easily accessible to banks is preferred.

A few banks use the Preferential Trade Area (PTA) arrangement for settling letters of credit for their clients. However, delays in payment from some PTA member countries have adversely affected the efficiency and operations of this scheme.

Private export financing in Kenya is a relatively new development. Many banks have called for additional incentives from the government in order to provide more funds to exporters. Some banks refuse firm orders or letters of credit as collateral, particularly if they come from small to medium size exporters. Many financial institutions do not as yet undertake transaction-based export financing. Custom bond facilities necessary for control of an exporter's inventory and which can be used as collateral are lacking. Trading of banker's acceptances is limited. Commercial banks do not focus exclusively on export credit and the traditional working capital lines of credit are fully collateralized with cash, securities or property. The lack of a secondary market for export bills acts as a disincentive to providing export financing. However, despite these problems, export guarantees and insurance have played an important role in the development of an export financing market in Kenya.

F. SOURCES OF FINANCE

INDUSTRIAL DEVELOPMENT BANK (IDB)

IDB is a Government of Kenya funded financial institution. IDB provides medium and long term loan finance, direct equity investment and guarantees for loans from other sources. It also underwrites security issues, shares, stocks and similar obligations:

CONTACT: Managing Director, IDB,

National Bank Building, 18th Floor, Harambee Avenue
P.O. Box 44036, Nairobi, Tel. 337079, Fax 335594

INDUSTRIAL AND COMMERCIAL DEVELOPMENT CORPORATION (ICDC)

ICDC has been the Government's main conduit for joint venture investments and has made equity investments in many industrial and commercial ventures along with local and foreign partners. ICDC provides project and commercial financing.

CONTACT: Executive Director, ICDC,
Uchumi House
P.O. Box 45519, Nairobi, Tel. 229213, Fax 333880

DEVELOPMENT FINANCE COMPANY OF KENYA (DFCK)

DFCK is owned jointly by the Kenya Government through ICDC, the Netherlands Overseas Finance Company (FMO), the Commonwealth Development Corporation (CDC), the German Development Bank (DEG) and the International Finance Corporation (IFC). DFCK provides medium-term local and foreign currency financing for projects in the industrial, agro-processing, and tourism sectors.

CONTACT: The General Manager, DFCK
Finance House, Loita Street
P.O. Box 30483, Nairobi, Tel. 340401/2/3, Fax 338426

EAST AFRICAN DEVELOPMENT BANK (EADB)

The bank's shareholding is held primarily by the governments of Kenya, Uganda and Tanzania. The EADB provides medium and long-term loans designated in foreign currencies.

CONTACT: Resident Manager, EADB
Bruce House, Standard Street
P.O. Box 47685, Nairobi, Tel. 340642, Fax 216651

KENYA INDUSTRIAL ESTATES LTD. (KIE)

KIE provides term loans, and a package of other services. The loans are designated in Kenya shillings.

CONTACT: The Managing Director, KIE,
P.O. Box 78029, Nairobi, Tel. 542300, Fax 553124

KENYA EQUITY MANAGEMENT LTD. (KEM)

KEM provides equity and term financing, and particularly supports existing companies who wish to expand rather than start-up operations.

CONTACT: The Managing Director, KEM
P.O. Box 62360, Nairobi, Tel. 340549, Fax 227147

THE AFRICA GROWTH FUND (AGF)

AGF managed by Kenya Equity Management, an affiliate of the U.S. owned Equator Bank, invests in the full range of productive businesses, including manufacturing, agriculture, finance and service industries. Typically, funded projects are between $5 million and $50 million in size. Funding comes from the U.S. Overseas Private Investment Corporation (OPIC).

CONTACT: The General Manager, AFG
P.O. Box 62360, Nairobi, Tel. 340547, Fax 217147

INTERNATIONAL FINANCE CORPORATION (IFC)

IFC is an affiliate of the World Bank and finances private sector investment projects in agriculture, manufacturing and tourism. IFC extends term loans and makes equity investment in projects entailing investment of more than $20 million. It normally does not finance more than 25 percent of the project cost. The term loans are generally made in foreign currencies. IFC also manages the Africa Enterprise Fund, which can support projects with lower project costs.

CONTACT: Chief of Mission/Regional Representative (EA)
Hill Park Building
P.O. Box 30577, Nairobi, Tel. 714141, Fax 720604.

AFRICAN PROJECT DEVELOPMENT FACILITY (APDF)

APDF is a facility established by IFC, UNDP, USAID and The African Development Bank (AFDB). The facility supports medium-sized, African-owned projects by offering assistance in project preparation, locating joint venture partners and negotiating project finance.

CONTACT: General Manager, APDF,
International House
P.O. Box 46534, Nairobi, Tel 337490

INDUSTRIAL PROMOTION SERVICES LTD. (IPS)

IPS is a venture capital company owned by the Aga Khan, IFC Washington, Kenya Commercial Bank, and a merchant bank in the U.K. IPS offers equity investments up to

40 percent of share capital, provides loans and management assistance. IPS also assists in project development and in locating sources of technical know-how.

CONTACT: Managing Director, IPS
IPS Building
P.O. Box 30500, Nairobi, Tel. 228026/728207, Fax 214563

ECONOMIC DEVELOPMENT FOR EQUATORIAL AND SOUTHERN AFRICA (EDESA)

EDESA provides medium and long term financing in foreign and local currency. EDESA offers tailor-made package financing for start-up, rehabilitation, and expansion of local ventures which include loans, convertible loans, guarantees and equity.

CONTACT: General Manager, EDESA Kenya Ltd.
P.O. Box 56038, Nairobi, Tel. 822920-4, Fax: 822925

THE ACACIA FUND LIMITED (AFL)

The Acacia Fund is a private equity fund which makes equity or equity related investments in private sector Kenyan companies. AFL is managed by Kenya Capital Partners. Its shareholders are CDC, DEG (the German Investment & Development Company), Barclays Bank of Kenya and Development Bank of Kenya.

CONTACT: Managing Director, Kenya Capital Partners Ltd
P.O. Box 43233, Nairobi, Tel: 228870; Fax: 219744

EUROPEAN DEVELOPMENT BANKS

A number of European development banks provide finance to ventures in Kenya. They include the Netherlands Overseas Finance Company in Kenya (FMO), the Commonwealth Development Corporation (CDC), the Danish Development Bank (IFU), and the Swedish Fund for Industrial Development of Africa (SFIDA).

Private insurance and pension funds are also important mobilizers of long term savings in Kenya. These institutions normally invest their funds in real estate and listed securities.

LIST OF COMMERCIAL BANKS

Bank	**Postal Address of Head Office**
ABN Amro Bank	Box 30262, Fax 713391 Nairobi
African Mercantile Bank	Box 30090, Fax 333818 Nairobi
Bank of Baroda	Box 30033, Fax 333089 Nairobi
Bank of India	Box 30246, Fax 334545 Nairobi
Bank of Oman	Box 11129, Fax 330792 Nairobi

Barclays Bank of Kenya Ltd.	Box 30120, Fax 337201 Nairobi
Biashara Bank of Kenya Ltd.	Box 30831, Fax 221064 Nairobi
Bullion Bank	Box 11666, Fax 221338 Nairobi
Citibank N.A.	Box 30711, Fax 337340 Nairobi
Commercial Bank of Africa	Box 30437, Fax 335827 Nairobi
Consolidated Bank of Kenya	Box 51133, Fax 340213 Nairobi
Co-operative Bank of Kenya	Box 48231, Fax 330227 Nairobi
Credit Banking Corporation	Box 75501, Tel 336446 Nairobi
Daima Bank	Box 54319, Tel 338079 Nairobi
Delphis Bank	Box 44080, Fax 219469 Nairobi
Euro Bank	Box 43071, Fax 221781 Nairobi
First American Bank	Box 30691, Fax 333868 Nairobi
Giro Bank	Box 40263, Fax 230600 Nairobi
Guilders International Bank	Box 67437, Fax 218030 Nairobi
Habib Bank AG Zurich	Box 30584, Fax 218699 Nairobi
Kenya Commercial Bank Ltd.	Box 48400, Fax 338006 Nairobi
Middle East Bank Ltd.	Box 47487, Fax 336182 Nairobi
National Bank of Kenya Ltd.	Box 41862, Fax 330784 Nairobi
Prime Bank	Box 43825, Fax 334549 Nairobi
Stanbic Bank	Box 30113, Fax 330227 Nairobi
Standard Bank Chartered Bank	Box 30003, Fax 330506 Nairobi
Transnational Bank Ltd.	Box 75840, Fax 210335 Nairobi
Trust Bank Ltd.	Box 46342, Fax 334995 Nairobi
United Bank Limited	Box 403, Fax 42551, Kisumu

G. PROJECT FINANCING AVAILABLE

Each year Kenya receives significant project financing assistance from donors. There are three sources of external assistance: multilateral, bilateral and Private Voluntary Organizations (PVOs). The first category can further be divided into United Nations Organizations and non-United Nations multilateral institutions. Bilateral donors lead in provision of project financing, followed by multilateral and PVOs. In FY 1996, external assistance to Kenya was estimated at $730 million. This figure excludes PVOs contribution.

In December 1991, multilateral and bilateral donors temporarily suspended balance of payments assistance to Kenya. There was no interruption of project financing flows to Kenya. A large amount of aid goes to NGO's for projects instead of directly to the Government of Kenya for balance of payment support or for government infrastructure projects.

The largest overall multilateral donor is the World Bank. World Bank-funded projects are listed below. The private lending arm of the World Bank Group, International Finance Corporation (IFC), provided substantial amounts of finance to the private sector, particularly those investments with a potential of generating foreign exchange. The African Development Bank/Fund has not had its concessionary lending facility adequately replenished. Thus, the only AFDB funded projects were those already funded and in the pipeline. These include the $60 million Greater Nakuru Water Supply. It is anticipated that the AFDB will recommence concessionary lending operations in the near future. U.S. firms also should examine the possibility of using the private sector window established at the AFDB. For more information on opportunities for projects funded by multilateral development banks, U.S. firms can contact the Multilateral Development Bank Office, U.S. & Foreign Commercial Service, U.S. Department of Commerce, Washington, D.C., Tel: (202) 482-3399, FAX: (202) 482-3914 for further information.

Japan tops the list of bilateral donors followed by Germany, the United Kingdom and the United States. In FY 99, the United States provided Kenya with a total of nearly $83 million in direct assistance. By far the largest portion of this total flowed through USAID Kenya, which provided almost $67 million in economic and humanitarian assistance to Kenya. Project assistance covers ten key sectors of the Kenyan economy. The top five sectors in order of importance are: Economic Management; Agriculture, Forestry and Fisheries; Health; Transport and Communications; and International Trade. Other equally important sectors are: Social Development, Human Resources, Natural Resources and Industry. The distribution of assistance in the top five sectors is highly skewed towards the sectors that contribute to economic development. For example, in economic management, over 90 percent of the assistance goes to macroeconomic policy planning. In agriculture, over half goes to food crops and support services, while in the international trade of goods and services, the export promotion sub-sector alone accounts for over 60 percent.

Listed below are World Bank funded projects in Kenya:

Project	**Funding**	**Value (Million)**
Mombasa Water II	World Bank	$ 43.0
Nairobi/Mombasa Road	World Bank	$ 50.0
Urban Transport	World Bank	$115.0
Energy Sector	World Bank	$125.0
Arid Lands Rehabilitation	World Bank	$ 22.0
Nairobi Water III	World Bank	$ 65.0
Human Resources	World Bank	$180.0
Lake Victoria Environment	World Bank	$ 70.0

For further information on project financing available, refer to Section F, Sources of Finance, above.

H. LIST OF BANKS WITH CORRESPONDENT U.S. BANKING ARRANGEMENT

Almost all major commercial banks in Kenya have either direct or indirect correspondent offices in London and the US. They include the following:

Stanbic Bank Ltd
Kenya Commercial Bank
Standard Chartered Bank
Bank Indosuez
Barclays Bank of Kenya
Bank of Baroda
Bank of India
Mashereabank PSC
Commercial Bank of Africa
Citibank
ABN AMRO Bank
Habib Bank A.G. Zurich
Habib Bank Ltd
National Bank of Kenya

CHAPTER IX

BUSINESS TRAVEL

A. BUSINESS CUSTOMS

There is solid sales potential for U.S. goods and services in Kenya. However, Kenya is a developing country with a complex market. The U.S. exporter should keep certain factors in mind to achieve maximum success.

Given the good business and political relations between Kenya and the U.S., there are significant commercial opportunities for U.S. firms. The principles of customary business courtesy, especially replying promptly to requests for price quotations and orders, are a prerequisite for exporting success. In general, Kenya business executives are relatively informal and open. The use of first names at an early stage of a business relationship is acceptable. Friendship and mutual trust are highly valued, and once an American has earned this trust, a productive working relationship can usually be expected.

Given the competitive market and increasing experience, Kenyan firms are developing expertise in international business. Kenyan buyers appreciate quality and service, and, if justified, are willing to pay extra if they are convinced of a product's overall superiority. The market, however, is very price sensitive. As would be the case in other markets, care must be taken to ensure that delivery dates are closely maintained and that after-sales service will be promptly honored. While there are numerous factors that may interfere with prompt shipment, the U.S. exporter should allow for additional shipping time to Kenya and ensure the Kenyan buyer is continuously updated on changes in the shipping schedules and routing. It is much better to quote a later delivery date that can be guaranteed than an earlier one that is not completely certain. Since Kenyan wholesalers and retailers generally do a lower volume of business than their American counterparts, U.S. firms should be prepared to sell smaller lots than is the custom in the United States.

U.S. firms should maintain close liaison with distributors and customers to exchange information and ideas. Local distributors/representatives should serve as a good source of local market requirement information and as appraisers of product market acceptance. In most instances, mail, fax or telephone communications are sufficient, but the understanding developed through periodic personal visits is the best way to keep distributors apprised of new developments and to resolve problems quickly. Prompt acknowledgment of correspondence by fax or e-mail is recommended.

If the market size warrants, U.S. marketers should seriously consider warehousing in Kenya for speedy supply and service of customers. Local assembly of complete knock down (ckd) kits, especially for electrical and electronic goods, is recommended; this has proven viable in the Kenyan market, and has an import duty advantage. As would be the case in most markets, a vigorous and sustained promotion is often needed to launch products. Products must be adapted to both technical requirements and to consumer preferences, as well as meet Kenyan Government regulations. The GOK is keen to ensure that all imports conform to the stipulated technical specifications; any flaws detected could result in the withdrawal of the product from the market, prosecution of the manufacturer and the retailer/importer, or both. It is not sufficient to merely label a product in conformity with national requirements to achieve successful market penetration. Consumers must be attracted to the product by the label and packaging as well as ease of use.

B. TRAVEL ADVISORY AND VISAS

Kenya is a developing East African country known for the wildlife in its national park system. Tourist facilities are widely available in Nairobi, on the coast, and in the game parks and reserves.

A passport is required, and a visa is required for transit passengers and for visits of more than 30 days. Visas may be obtained at any Kenyan Embassy or Consulate, or upon arrival at a Kenyan port of entry. Evidence of yellow fever immunization may be requested. There is an airport departure tax of $40 which may be paid in hard currency or Kenyan Shillings. Further information may be obtained from the Embassy of Kenya, 2249 R Street, N.W., Washington, D.C. 20008, telephone (202) 387-6101. There also are Kenyan Consulates General in Los Angeles and New York.

Kenya has recently entered a political transition period, from a system of single-party democracy to a system of multi-party democracy. From time to time, political or ethnic tensions, associated with this transition, increase resulting in localized areas of instability. Although the December 1997 elections were generally peaceful, political meetings and demonstrations, which can be violent, are likely to continue. Visitors should avoid all areas where demonstrations, rallies, and other political protests are taking place. Travelers should follow the print and electronic media to keep abreast of where and when any political rallies and demonstrations are likely to occur, and of the potential for confrontation.

Adequate medical services are available in Nairobi. Doctors and hospitals often expect immediate cash payment for health care services. U.S. medical insurance is not always valid outside the United States. Supplemental insurance with specific overseas coverage, including air evacuation, has proved useful. Outbreaks of Rift Valley fever, cholera, and malaria have occurred in Kenya. Information on other health matters, including the incidence of malaria in the country, can be obtained from the Center for Disease Control's international travelers hotline, telephone (888) 232-3228, autofax at (888) 232-3299 or on the Internet: http://www.cdc.gov/.

There is a high rate of street crime against tourists in downtown Nairobi, Mombasa, and at the coastal beach resorts. During periods when police are occupied due to civil unrest related to political tensions, there may be an increase in street crime and banditry. Reports of attacks against tourists by groups of two or more armed assailants are on the rise. Pickpockets and thieves are also involved in "snatch and run" crimes near crowds. Visitors have found it safer not to carry valuables with them, but to store all valuables in hotel safety deposit boxes or safe rooms. Thieves often snatch watches, jewelry and other objects from open vehicle windows while motorists are either stopped at a traffic light or in heavy traffic.

Armed carjackings are common in Nairobi. There also is a high incidence of residential break-ins. Thieves and con men have been known to impersonate hotel employees, police officers or government officials. Tourists who accept sweet biscuits or juice from new acquaintances on intercity buses in Kenya have been robbed after being drugged by food or drink laced with sedatives. Highway banditry is common on the roads leading to the Somali border. Air travel is the safest means of transportation when visiting any of the coastal resorts north of Malindi. Walking alone or at night in public parks, along footpaths or beaches, and in poorly lit areas can be dangerous. The Kenyan mail system can be unreliable, and monetary instruments (credit cards, checks, etc.) are frequently stolen. International couriers such as Federal Express, United Parcel Service and DHL have proven to be the safest means of shipping envelopes and packages.

The loss or theft abroad of a U.S. passport should be reported immediately to the local police and to the nearest U.S. Embassy or Consulate. The pamphlets "A Safe Trip Abroad" and "Tips for Travelers to sub-Saharan Africa" provide useful information on protecting personal security while traveling abroad and on travel in the region in general. Both are available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

Excessive speed, unpredictable local driving habits, and lack of basic safety equipment on many vehicles are daily hazards on Kenyan roads. In addition, vehicle travel outside major cities at night should be avoided due to the poor condition of the roads and the threat of banditry. Severe storms and heavy rains have led to critical damage to roads and bridges. Travelers should consult with the U.S. Embassy in Nairobi and local officials regarding travel conditions.

Up to KSH. 100,000 may be taken out of the country. It is an offense to destroy or deface Kenyan currency. All unwanted Kenyan currency should be surrendered to a commercial bank or Forex Bureau; destruction of the currency could result in a jail term or heavy fine.

In response to increased banditry and incidents of robbery in or near many of Kenya's national parks and game reserves, the Kenya Wildlife Service and police took steps in late 1996 to strengthen security in the affected areas. Travelers who do not use the services of reputable travel firms or knowledgeable guides and drivers are at risk. Safaris are best undertaken with minimum of two vehicles so that there is a backup in case of mechanical failure. Solo camping is always risky.

U.S. citizens are subject to the laws of the country in which they are traveling. Penalties for possession, use, or trafficking in illegal drugs are strictly enforced. The penalty for possession of illegal drugs, including marijuana, is 10 years imprisonment without the option of fine. The penalty for purchasing or selling illegal drugs, including marijuana, is 20 years, with no option of fine.

Water in Nairobi is not potable. In other parts of the country, water also must be boiled or bottled water used. Sealed bottled water is safe to drink and can be purchased in local hotels, restaurants, and grocery stores. Travel by passenger train in Kenya may be unsafe, particularly during the rainy season, because of the lack of routine maintenance and safety checks.

U.S. citizens may register at the Embassy in Nairobi and obtain updated information on travel and security in Kenya. The U.S. Embassy is located on Mombasa Rd, between downtown Nairobi and Jomo Kenyatta Airport. The telephone number is (254 2) 537-800. The mailing address is P.O. Box 30137, Nairobi, Kenya. The APO address is Unit 64100, APO AE 09831-4100.

Department of State travel information is available at internet address: http://travel.state.gov. U.S. travelers may hear recorded information by calling the department at 202-647-5225 from a touch tone telephone or receive information by automated fax by dialing 202-647-3000 from a fax machine.

The basic monetary unit is the Kenya Shilling (KSH.). The shilling comes in paper currency of Sh. 50, Sh. 100, Sh. 200, Sh. 500 and Sh. 1,000 notes. Coins are issued in 5, 10 and 50 cents, and 1, 5, 10 and 20 shilling units. The shilling is subdivided into units of 100 cents.

With the freeing of foreign exchange regulations, the Kenya Shilling floats daily. The shilling has recently lost ground from steady appreciation against major hard currencies. As of January 2000, the mean exchange rate was KSH. 72/$1. Visiting business executives should check the financial section of the daily newspapers for the current exchange rate which could change radically and quickly.

Major international credit cards are usually accepted with proper identification such as a passport. Traveler's checks are usually accepted by banks and major hotels.

C. HOLIDAYS AND BUSINESS HOURS

A 40-hour workweek is the norm for offices and factories. Office working hours are 8:00 am to 5:00 p.m. with lunch from 1:00 p.m. to 2:00 p.m. Banking hours are from 9:00 am to 3:00 p.m. Most retail stores are open from 9:00 am to 6:00 p.m.

The following are the official statutory holidays when most commercial offices are closed:

New Year's Day	January 1
Id-Ul-Fitr	Variable
Good Friday	Variable (March/April)
Easter Monday	Variable (March/April)
Labor Day	May 1
Madaraka Day	June 1
Moi Day	October 10
Kenyatta Day	October 20
Jamhuri Day	December 12
Christmas Day	December 25
Boxing Day	December 26

D. BUSINESS INFRASTRUCTURE

Transportation: Taxis and rental automobiles are available in large towns and cities. Traffic moves on the left-hand side of the road. Visiting American business executives rarely use the bus system or trains.

Airports: Kenya has two major airports (Jomo Kenyatta in Nairobi and Moi in Mombasa). Inland passenger and freight are conveyed by the road and rail network.

Lodging: Kenya has first-rate hotels in its major cities, and a range of lodges in the game parks. Business travelers are advised to make their hotel reservations in advance, especially during tourist high season from July to March.

Language: The official languages of Kenya are English and Kiswahili. However, many different languages and dialects are spoken throughout the country. The commercial language is English. Language barriers pose no problems, but in legal documents it is advisable to have lawyers who can interpret between American English and Kenyan English usage.

Communications: The telecommunications system, which includes direct dialing telephone service and fax to the U.S., is available throughout the country. Interruptions in service do occur and simple local calls often are hard to complete. Some telecommunication links, especially those via microwave, do not meet the quality requirements for transmission of high speed business data and communications.

Housing: Adequate housing is available. However, security concerns should be seriously considered in the location of housing, and in protective walls and security guards. More and more expatriate business executives are leasing compound housing, as these arrangements are more modern and secure.

Utilities: Water and 220 volt 50 Hz single phase and three phase electricity are available. The British three blade plug is used widely. Interruptions of electrical power supply frequently occur, including cuts in industrial zones during evening peak hours. Most housing has attic reserve water tanks. Permanent or long term residents should consider purchase of standby electrical generators as electricity demand often exceeds generating capacity with frequent interruptions or brown outs. Bottled LPG is available, but supply cannot always be guaranteed.

Health: Adequate medical services are available in Nairobi. Malaria is not prevalent in high elevations, but precautions must be taken in lower areas, especially in the coastal regions. Residents should follow a strict sanitary regime in washing and preparing food. Other precautions should be taken to avoid contracting endemic tropical diseases.

Food: There is plenty of high quality food available, including a large variety of fresh fruits, vegetables, meats, poultry and fish. Fresh milk and milk products are available. With the lifting of import controls, a variety of canned and prepared foods are available. However, imported foodstuffs are very expensive. Periodic shortages of milk, sugar, flour, etc. have occurred in the past. Fruits and vegetables may be seasonal.

CHAPTER X

APPENDICES

APPENDIX A

COUNTRY DATA

Population:	30.0 million (1999 estimate).
Population Growth Rate:	2.6 percent
Religions:	Christian, Islam, Hindu, and traditional.

GOVERNMENT SYSTEM: Kenya has a democratic government with an elected president and a directly elected parliament modeled on the British pattern.

LANGUAGE: The official languages of Kenya are English and Swahili. Many dialects are also spoken throughout the country. English is the commercial language; therefore, language is not a barrier to business transactions.

WORKWEEK: 40 hours for both offices and factories. Working hours are 8:00 am to 5:00 p.m. with lunch from 1:00 p.m. to 2:00 p.m.. Monday through Friday. Banking hours are 9:00 am to 3:00 p.m.

APPENDIX B

DOMESTIC ECONOMY

(In $ millions unless otherwise specified)

		1996	1997	1998	1999 (est.)
GDP at Market Prices	8,985	9,192	9,357		9,488
GDP Growth Rate (%)		4.6	2.3	1.8	1.4
GDP Per Capita: (in '000)		0.318	0.317	0.314	0.300
Government Spending (% of GDP)		31.3	29.6	29.4	29.2
Inflation (%)		9.0	8.5	6.6	6.6
Unemployment (%)		24.6	24.9	25.0	30.0
Foreign Exchange Reserves		860	788	783	746
Av.Exch. Rate: KSH./$		57.1	58.0	60.4	70
Debt Service Ratio		24.6	21.5	21.4	N/A

APPENDIX C

TRADE

(In $ million unless otherwise specified)

	1996	1997	1998	1999 (est.)
Total Country Exports	1,969	2,001	1,994	N/A

Total Country Imports	2,929	3,263	3,155	N/A
U.S. Exports	104.2	225.6	199.0	191.0
U.S. Imports	106.6	114.0	98.5	106.5

APPENDIX D

INVESTMENT STATISTICS

(In $ million unless otherwise specified)

	1992	1993	1994
Total Direct Foreign Inv.	2,040	2,050	2,100
U.S. Share (%)	13.5	13.5	13.5

FOREIGN DIRECT INVESTMENT STATISTICS

The flow of direct foreign investment in Kenya stagnated in the 1980's owing to a deterioration of the investment climate. Investors complained of excessive government regulation, high taxation and delays in profit and dividend repatriation which had fallen three years in arrears. During this period, corruption increased and infrastructure deteriorated. In the 1990's the GOK began implementation of a series of policy measures aimed at improving the investment climate. These include liberalization of exchange controls for exporters, price decontrol of most items, interest rate decontrol and development of export processing zones. These changes have substantially improved the business environment.

Kenya does not keep data on the value of foreign direct investment (position/stock and annual direct investment capital flows) by country of origin or by industry sector destination. Neither is data available on Kenya's direct investment abroad.

MAJOR FOREIGN INVESTORS

A reliable source for the value of foreign investment in Kenya is lacking. According to available information, over 200 multinational corporations have invested in Kenya. The British lead with about $2.0 billion. The book value of U.S. investment is estimated at $97 million, while the market value is over $285 million. Investment from Far Eastern countries, including China and Japan, though insignificant, is rapidly rising. Major investors in key subsectors of the economy are listed below.

Sub-Sector	Company	Country
Canned Fruits	Del Monte	Britain
Oils, Fats and Fruit	Unilever Plc.	Britain

Tea and Coffee	Brooke Bond Liebig	Britain
Mineral Water and		
Confectionery	Cadbury Schweppes Ltd	Britain
Paper	Oriental Paper Mill	India
Cement	Bamburi Portland Cement	Britain
Knitted Fabric	Raymond Woollen Mills	India
Metal/packaging cans	CMB (owned jointly by	
	Metal Box Ltd UK and	
	Carnaud Ltd)	France
Vehicle Assembly	General Motors	U.S.A.
	Leyland Motors	Britain
Pharmaceutical	Smithkline-Beecham	Britain
Toiletries	Colgate Palmolive	U.S.A.
	Unilever	Britain
Cosmetics & Allied	Chesebrough-Pond's	U.S.A.
Industries	Henkel	Germany
Synthetic resin		
emulsions and other		
chemicals	Hoechst	Germany
Pharmaceutical and		
Cosmetics	Sara Lee	U.S.A.
Pharmaceutical and		
Infant Food	Glaxo Holdings	Britain
Electric and		
Electronic Equipment	Philips	Holland
	SANYO	Japan
Telecommunication		
Equipment	Siemens	Germany
	L.M. Ericson	Sweden
Textiles	Amatex T. OmbH & Co	Germany
	S.I.F.I.D.A.	France
	Hisata Spinning Co.	Japan
	Khatau Group	India
Petroleum Refining/	Mobil	U.S.A.
Distribution	Caltex	U.S.A.
	Total	France
	Shell/BP	UK/Netherlands
	Agip	Italy

APPENDIX E

U.S. AND KENYAN CONTACTS

1. U.S. EMBASSY AND U.S. GOVERNMENT TRADE-RELATED CONTACTS

U.S. & Foreign Commercial Service
U.S. Embassy Nairobi
P.O. Box 30137
Nairobi, Kenya
Tel: 254-2-537-800 (x3660)
Fax: 254-2-537-846
Contact: August Maffry, Regional Senior Commercial Officer

Economic Section
U.S. Embassy Nairobi
P.O. Box 30137
Nairobi, Kenya
Tel: 254-2-537-800 (x3233)
Fax: 254-2-537-881
Contact: Harold Foster, Economic Counselor

Agricultural Attache
U.S. Embassy, Nairobi
P.O. Box 30137
Nairobi, Kenya
Tel: 254-2-249-830/1
Fax: 254-2-243-689
Contact: Fred Kessel, Agricultural Attache

The Multilateral Development Bank Office
U.S. & Foreign Commercial Service
U.S. Department of Commerce
USA Trade Center
Ronald Reagan Building
Washington, D.C. 20230
Tel: 202-482-3399
Fax: 202-482-3914
Contact: Ms. Janet Thomas, Director

Trade Promotion Coordinating Committee (TPCC)
Trade Information Center
USA Trade Center
Ronald Reagan Building
Washington, DC 20230
Tel: 1-800-USA-TRADE

U.S. Department of Agriculture
Foreign Agricultural Service

Trade Assistance and Promotion Office
Tel: 202-720-7420
Fax: 202-720-7772

Market Access and Compliance
U.S. Department of Commerce
14th & Constitution Avenues, N.W.
Washington, DC 20230
Tel: 202-482-4227
Fax: 202-482-5198
Contact: Office of Africa

U.S. Department of State
Office of Coordinator for Business Affairs
Washington, D.C. 20230
Tel: 202-746-1625
FAX: 202-647-3953

Overseas Private Investment Corporation
1100 New York Avenue, N.W.
Washington, DC 20527
Tel: 202-336-8400
Fax: 202-336-8700

2. AMCHAM AND/OR BILATERAL BUSINESS COUNCILS

Kenya National Chamber of Commerce & Industry
P.O. Box 47024
Nairobi, Kenya
Tel: 254-2-334-413
FAX: 254-2-340-664
Contact: Mr. Kassim Owango, Chairman

American Business Association
c/o American Embassy
P.O. Box 30137
Nairobi, Kenya
Tel: 254-2-537-800 (x3660)
Fax: 254-2-537-846
Contact: Mr. James Dry, Chairman

American Women's Association
P.O. Box 16517
Nairobi, Kenya
Tel: 254-2-446-512
Contact: Jodie Westrum, Chairperson

3. COUNTRY TRADE OR INDUSTRY ASSOCIATIONS IN KEY SECTORS

The East African Association
Jubilee Insurance House, Wabera Street
P.O. Box 41272
Nairobi, Kenya
Tel: 254-2-218-317
FAX: 254-2-218-317
Contact: Mr. Charles A. Gardner, Resident Representative

Marketing Society of Kenya
Witu Road
P.O. Box 69826
Nairobi, Kenya
Tel: 254-2-544717
Fax: 254-2-544717
Contact: Ms T. McKelvie, Chief Executive

Kenya Association of Manufacturers
Peponi Road
P.O. Box 30225
Nairobi, Kenya
Tel: 254-2-746-005/6
FAX: 254-2-746-030
Contact: Mr. Z.N. Kahura, Chief Executive

Federation of Kenya Employers (FKE)
Waajiri House, Hurlingham
P.O. Box 48311
Nairobi, Kenya
Tel: 254-2-721-929
FAX: 254-2-721-990
Contact: Mr. Tom Owuor, Executive Director

Central Organization of Trade Unions (COTU)
Solidarity House, Digo Road
P.O. Box 13000
Nairobi, Kenya
Tel: 254-2-761-375
FAX: 254-2-762-695
Contact: Hon. Joseph J. Mugalla, Secretary General

Kenya National Farmers Union (KNFU)
Adamali House, City Center
P.O. Box 43148

Nairobi, Kenya
Tel: 254-2-228-894
FAX: 254-2-339-905
Contact: Mr. Joseph K. Waweru, Chief Executive

Kenya Bureau of Standards
Off Mombasa Road, Nairobi South C
P.O. Box 54974
Nairobi, Kenya
Tel: 254-2-502-211
FAX: 254-2-503-293
Contact: Eng. Phillip Okundi, Managing Director

SGS Kenya Ltd.
Rank Xerox House
P.O. Box 72118
Nairobi, Kenya
Tel: 254-2-751-811
FAX: 254-2-741-468
Contact: Mr. M. Politi, National Chief Executive

SGS Control Services Inc.
42 Broadway
New York, N.Y. 10004
Tel: (212) 482-8700

Cotecna Inspections Inc.
14200 Park Meadow Drive, Ste 120
Chantilly, VA 22021
Tel: 703-814-4000
Fax: 703-814-4020

Bureau Veritas-Bivac
ABC Place
P.O. Box 34378
Nairobi, Kenya
Tel: 254-2-443891
FAX: 254-2-4470501 or 440518
Contact: Mr. Gerald Vale, Chief Executive

4. COUNTRY GOVERNMENT OFFICES

Ministry of Agriculture and Rural Development
Kilimo House, Cathedral Road
P.O. Box 30028
Nairobi, Kenya

Tel: 254-2-718-870 or 718-879
FAX: 254-2-720-586
Contact: Prof. Shem E. Migot-Adholla, Permanent Secretary

Ministry of Tourism, Trade and Industry
Utali House, Off Uhuru Highway
P.O. Box 30027
Nairobi, Kenya
Tel: 254-2-331-030
FAX: 254-2-226-036
Contact: Mr. Francis Awuor, Permanent Secretary

Ministry of Finance and Planning
Treasury Building, Harambee Avenue
P.O. Box 30007
Nairobi, Kenya
Tel: 254-2-338-111
FAX: 254-2-330-426
Contact: Mr. Martin Luke Oduor-Otieno, Permanent Secretary

Ministry of Energy
Nyayo House, Kenyatta Avenue
P.O. Box 30582
Nairobi, Kenya
Tel: 254-2-333-551
FAX: 254-2-240-910
Contact: Amb. Mwanyengela Ngali, Permanent Secretary

Ministry of Information, Transport & Communications
Transcom House, Ngong Road
P.O. Box 52692
Nairobi, Kenya
Tel: 254-2-729-200
FAX: 254-2-726-362
Contact: Mr. Titus Tukero Naikuni, Permanent Secretary

Ministry of Labour and Human Resource Development
Social Security House, Bishop Road
P.O. Box 40326
Nairobi, Kenya
Tel: 254-2-729-800
FAX: 254-2-726-497
Contact: Dr. Kangethe W. Gitu, Permanent Secretary

Kenya Revenue Authority
National Social Security Fund Bldg.

P.O. Box 48240
Nairobi, Kenya
Tel: 254-2-715-428
Fax: 254-2-728-960
Contact: Mr. John Msafiri, Commissioner General

Customs and Excise Department
Ministry of Finance
P.O. Box 30007
Nairobi, Kenya
Tel: 254-2-715-540
Fax: 254-2-718-417
Contact: Mr. Samuel Chebii, Commissioner of Customs

Industrial & Commercial Development Corporation
P.O. Box 45519
Nairobi, Kenya
Tel: 254-2-229-213 or 222-031
Fax: 254-2-333-880
Contact: Mr. Kipng'etich arap Korir Bett, Managing Director

Investment Promotion Center
National Bank Building
P.O. Box 55704
Nairobi, Kenya
Tel: 254-2-221-401
Fax: 254-2-336-663
Contact: Dr. Joseph arap Ng'ok, Executive Chairman

Kenya Ports Authority
P.O. Box 96009
Mombasa, Kenya
Tel: 254-11-312-211
Fax: 254-11-311-867
Contact: Mr. Leonard Mwangola, Managing Director

Telkom Kenya
Telposta Towers, Kenyatta Avenue
P.O. Box 30301
Nairobi, Kenya
Tel: 254-2-227-401
Fax: 254-2-251-071
Contact: Mr. Augustine Cheserem, Managing Director

Kenya Power & Lighting Company
Stima Plaza, Kolobot Road

P.O. Box 30177
Nairobi, Kenya
Tel: 254-2-243-366
Fax: 254-2-337-351
Contact: Mr. Samuel Gichuru, Managing Director

Kenya Electricity Generating Company
Stima Plaza, Kolobot Road
P.O. Box 47936
Nairobi, Kenya
Tel: 254-2-243-366
Fax: 254-2-337-351
Contact: Mr. Edwin Wasuna, Managing Director

Export Processing Zones Authority
British-American Center Building
P.O. Box 50563
Nairobi, Kenya
Tel: 254-2-712-800
Fax: 254-2-713-704
Contact: Mr. Samuel Budotich, Executive Chairman

5. COUNTRY MARKET RESEARCH FIRMS

Research International (EA) Ltd.
Ngano House, Commercial St.
P.O. Box 72951
Nairobi, Kenya
Tel: 254-2-530-536
Fax: 254-2-530-537
Contact: Ms Melissa Baker, Managing Director

Price Waterhouse Coopers
Rattansi Education Trust Building
P.O. Box 43963
Nairobi, Kenya
Tel: 254-2-221-244
Fax: 254-2-335-937 or 210-124
Contact: Mr. Simon Fisher, Chief Executive

Deloitte & Touche
Kirungii House, Westlands
P.O. Box 40092
Nairobi, Kenya
Tel: 254-2-441-344
Fax: 254-2-448-966

Contact: Mr. Masoud Sharris, Managing Director

6. COUNTRY COMMERCIAL BANKS

Barclays Bank of Kenya Ltd.
Barclays Plaza - Loita St.
P.O. Box 30120
Nairobi, Kenya
Tel: 254-2-332-230
Fax: 254-2-213-915
Contact: Mr. Gareth George, Managing Director

Kenya Commercial Bank Ltd.
Kencom House, Moi Avenue
P.O. Box 48400
Nairobi, Kenya
Tel: 254-2-339-441
Fax: 254-2-335-219
Contact: Mr. Peter O. Nyakiamo, Executive Chairman

Standard Chartered Bank (K) Ltd.
Stanbank House, Moi Avenue
P.O. Box 30003
Nairobi, Kenya
Tel: 254-2-330-200
Fax: 254-2-330-506
Contact: Mr. Les Gibson, Managing Director

Citibank N.A.
Fedha Towers - Muindi Mbingu St.
P.O. Box 30711
Nairobi, Kenya
Tel: 254-2-333-524
Fax: 254-2-337-340
Contact: Mr. Peter Harris, General Manager

First American Bank of Kenya
ICEA Building
P.O. Box 30691
Nairobi, Kenya
Tel: 254-2-333-960
Fax 254-2-230-969
Contact: Mr. Manlio Blasetti, Managing Director

Commercial Bank of Africa
Wabera Street

P.O. Box 30437
Nairobi, Kenya
Tel: 254-2-228-881
Fax: 254-2-335-827
Contact: Mr. John Docherty, Managing Director

Stanbic Bank Kenya Limited
Kenyatta Avenue
P.O. Box 30550
Nairobi, Kenya
Tel: 254-2- 335-888
Fax: 254-2- 330-337
Contact: Mr. P. Lewis-Jones, General Manager

7. MULTILATERAL DEVELOPMENT BANK OFFICES

World Bank
Hill Park, Upper Hill Road
P.O. Box 30577
Nairobi, Kenya
Tel: 254-2-714-141
Fax: 254-2-720-612
Telex: 22022
Contact: Mr. Harold E. Wackman, Representative

International Finance Corporation
P.O. Box 30577
Nairobi, Kenya
Tel: 254-2-714-141
Fax: 254-2-720-604
Contact: Mr. Michael Hooper, Chief of Mission

African Development Bank
01 BP 1387
Abidjan 01
Cote D'Ivoire
Tel: (225) 204444
Fax: (225) 204902

8. TRADE DIRECTORIES

The Kenya Association of Manufacturers Directory
P.O. Box 30225
Nairobi, Kenya
Tel: 254-2-746-005
Fax: 254-2-746-028

Contact: Mr. Z.N. Kahura, Chief Executive

Kenya Business Directory
Nation Marketing & Publishing Ltd.
Nation Center, Kimathi Street
P.O. Box 30211
Nairobi, Kenya
Tel: 254-2-221-222
Fax: 254-2-214-047

East Africa Business Directory
Nation Marketing & Publishing Ltd.
Nation Center, Kimathi Street
P.O. Box 30211
Nairobi, Kenya
Tel: 254-2-337-710
Fax: 254-2-214-047

9. MAJOR KENYAN NEWSPAPERS

The Nation
Nation Center, Kimathi Street
P.O. Box 49010
Nairobi, Kenya
Tel: 254-2-337-691
Fax: 254-2-214-047
Contact: Mr. Alfred Kiboro, Chief Executive

The East African Standard
Kitui Road, Industrial Area
P.O. Box 30080
Nairobi, Kenya
Tel: 254-2-540-280
Fax: 254-2-553-939
Contact: Mr. Bob Holt, Managing Director

The People
Union Towers, Moi Avenue
P.O. Box 48647
Nairobi, Kenya
Tel: 254-2-253-166/8/9
Fax: 254-2-253-344

The Kenya Times
Kenyatta International Conference Center
P.O. Box 30958

Nairobi, Kenya
Tel: 254-2-227-530
Fax: 254-2-243-339
Contact: Mr. Wilson Kibet, Managing Director

10. MAJOR BUSINESS JOURNALS

Economic Review
Pan Africa Insurance Arcade
P.O. Box 40894
Nairobi, Kenya
Tel: 254-2-714150
FAX: 254-2-723833
Contact: Mr. Peter Warutere, Group Managing Editor

11. TRADE EVENTS

Nairobi International Show
P.O. Box 21340
Nairobi, Kenya
Tel: 254-2-562676
FAX: 254-2-565882
Contact: Mr. Alex Kambona, General Manager

12. KENYAN ATTORNEYS (COMMERCIAL/BUSINESS)

Archer & Wilcock, Advocates
Old Mutual Building - Kimathi Street
P.O. Box 10201
Nairobi, Kenya
Tel: 254-2-227-531
Fax: 254-2-335-091

Daly & Figgs, Advocates
Lonrho House - Standard St.
P.O. Box 40034
Nairobi, Kenya
Tel: 254-2-336-331
Fax: 254-2-334-892

Kaplan & Stratton, Advocates
Queensway House - Kaunda St.
P.O. Box 40111
Nairobi, Kenya
Tel: 254-2-335-333
Fax: 254-2-340-827

Hamilton, Harrison, & Mathews, Advocates
ICEA Building - Kenyatta Ave.
P.O. Box 30333
Nairobi, Kenya
Tel: 254-2-225-981
Fax: 254-2-222-318

APPENDIX F

MARKET RESEARCH - KENYA

A. CS NAIROBI INDUSTRY SECTOR ANALYSES (ISAs)

The following are U.S. Commercial Service Nairobi Industry Sector Analysis (ISA) reports for Kenya scheduled for FY 2000:

FY '00 REPORTS

Report Title

Computer Software
Telecom Infrastructure Equipment
Agricultural Machinery & Equipment
Telecom End User Equipment
Food Processing and Packaging Equipment
Power Generation Equipment
Computers and Peripherals
Industrial Chemicals

The schedule for the U.S. Commercial Service Nairobi's Industry Sector Analysis (ISA) reports is currently being adjusted. Previous reports are available on the National Trade Data Bank (NTDB) and through local U.S. Department of Commerce District Office. For information and phone orders for the NTDB, contact the NTDB help line: (202) 482-1986.

B. FAS NAIROBI AGRICULTURAL REPORTS

FAS commodity reports are available from the Reports Office, USDA/FAS, Washington, DC 20250.

APPENDIX G

TRADE EVENTS SCHEDULE

The U.S. Commercial Service Nairobi is examining appropriate trade events for participation in FY 2000 and beyond. Post will look at possible spin off delegations from the many trade missions and matchmakers and other events being held in South Africa. The Commercial Service will also look at organizing International Buyer Delegations to the U.S. now that there has been a freeing of foreign exchange restrictions in Kenya. In addition, U.S. participation in other trade events in the region will be considered as part of an active regional commercial program. Post also welcomes opportunities to hold broad-based catalog shows.

U.S. firms should consult the U.S. Department of Commerce Export Promotion Calendar, available on the NTDB, or contact the Commercial Service, U.S. Embassy Nairobi, for the latest information on trade events in Kenya and the region.